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TAX EXPENDITURE REPORT FOR THE STATE OF MONTANA

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TAX EXPENDITURE REPORT

FOR THE

STATE OF MONTANA

FISCAL YEARS 1992 AND 1993

Prepared for the

1991 MONTANA LEGISLATURE

per

STATUTORY REQUIREMENT: MONTANA STATUTE MCA 15-1-205

Montana Department of Revenue
Helena, Montana

January, 1991

State of Montana

Stan Stephens, Governor

Department of Revenue

Denis Adams, Director

Room 455, Sam W. Mitchell Building

Helena, Montana 59620

LETTER OF TRANSMITTAL

Governor Stan Stephens and
Members of the Fifty-Second Montana Legislature

I am transmitting the Tax Expenditure Report of the Department of Revenue as required in 15-1-205 MCA. This is the second tax expenditure report prepared for the State of Montana, and provides estimates for the time period July 1, 1991 through June 30, 1993.

I hope you find this information useful in your tax policy deliberations.

Respectfully submitted,

Denis Adams

Denis Adams
Director

Director (406)444-2460 Legal Affairs (406)444-2852 Personnel/Training (406)444-2866 Research/Info. (406)444-2984

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PREFACE

House Bill 387, passed by the Fiftieth Legislature (1987), amended MCA 15-1-205 by requiring the Department of Revenue to supplement its Biennial Report with estimates of revenue loss attributed to certain deductions, exclusions, and credits.

The objective of the report is to provide a useful tool to the Governor and the Legislature for developing tax policy. Clear information on the costs of tax deductions and exemptions is as important as accurate data on costs of government services. Every effort was made to produce as comprehensive, detailed, and accurate a report as possible.

The report encompasses changes in tax law through the Fifty-First Montana Legislature, and incorporates changes embodied in the Federal Tax Reform Act of 1986, and the Omnibus Budget Reconciliation Act of 1990.

This is the second edition of this report. While there have been advances made in the methodology used to produce this report, we continue to recognize that there still remains room for improvement. Future editions of this report will refine the information provided, and reflect continued enhancements in statistical and computational estimating methods.

In this regard, any critiques or recommendations would be gratefully acknowledged and welcomed. Please send any comments and questions to:

Montana Department of Revenue
Office of Research and Information
Room 420, Mitchell Building
Helena, Montana 59620

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INTRODUCTION

Once every two years the Montana Legislature convenes in regular session to fulfill its responsibilities in the functioning of state government. Basic responsibilities include the review of past budgets associated with alternative government spending programs, a determination of the appropriateness of continuing these programs, the budgeting of program expenditure levels for coming years, and the appropriation of funds needed to finance continued and additional programs.

In recent years, attention has begun to focus on the fact that in this review process most state legislatures (Montana's included) systematically overlook a major component of government finance. This component consists of the reductions in state revenue attributable to deductions, exclusions, and credits in the tax code. In effect, the specific deductions, exclusions, and credits currently in tax codes represent indirect government spending programs, in the sense that these same preferences result in foregone revenue that otherwise would have been available for direct expenditure programs. Hence, these items are commonly referred to as "tax expenditures".

This introductory section examines the tax expenditure concept, discusses methods used in measuring tax expenditures, provides some caveats in the use of tax expenditure estimates, and examines the history of tax expenditure reporting.

The Tax Expenditure Concept

Tax expenditures are defined as provisions of the tax code that provide for special exclusions, exemptions, deductions, credits, deferrals, or preferential tax rates that result in foregone revenue.

The purpose of tax expenditures is to provide financial assistance to certain groups of taxpayers, or to provide an economic incentive that encourages specific taxpayer behavior. One example of a tax expenditure designed to provide financial assistance is the additional personal exemption allowed the blind and/or elderly. On the other hand, the deduction allowed homeowners for mortgage interest may be viewed as an inducement to encourage home ownership. In both cases, the same objectives could be attempted through direct government spending programs that subsidize certain individuals on the basis of specific characteristics or behavior.

The "Normal" Tax Structure. Tax expenditures arise as a consequence of deviations from the "normal" tax structure.

There is no general consensus regarding the normal income tax structure. However, there are a few tax provisions that are generally agreed upon to be components of the

normal tax structure, and consequently are not considered tax expenditures here as well. These items include:

1) the standard deduction,
2) the personal exemption allowed each taxpayer and each dependent,
3) the progressive rate structure based on ability to pay, and
4) the deduction for costs incurred in producing income.

Other provisions which remain the subjects of vigorous debate, but which nevertheless are considered by most to be components of the normal tax structure, include:

1) unrealized appreciation in asset values,
2) imputed income from homes and other assets, and
3) indexing the tax structure for inflation.

In Montana, two-earner married households are still allowed the option of filing separate returns without the penalty of having to use a different tax table for this form of filing. Given the relatively few states (10) that still allow this option, this is now considered to be a tax expenditure item for Montana.

In addition to the rate table advantage, married couples who file separately may allocate certain items of income in a manner advantageous to reducing their tax liability.

The following schedule shows the actual revenue loss attributable to this expenditure item for tax years 1986 through 1989, and the projected tax expenditure for fiscal years 1992 and 1993:

Tax Year	Tax Expenditure
1986	$ 19,700,000
1987	$ 25,200,000
1988	$ 27,300,000
1989	$ 26,300,000
FY92	$ 27,000,000
FY93	$ 28,000,000

Generally, state tax expenditure reports do not include provisions of tax law that lie beyond the state's legal jurisdiction. For example, federal statutes and court rulings prohibit states from taxing certain railroad retirement benefits, and income earned by Indians on reservations. Tax law provisions of this nature are not reported here.

At the state level, tax expenditures may be "passive" or "non-passive" in nature. Passive tax expenditures occur when a state couples its tax code to the federal tax

code in a manner that allows for the automatic incorporation of federal changes in state law.

For example, for state income tax purposes the starting point for determining Montana taxable income is Federal Adjusted Gross Income (FAGI). By starting with FAGI Montana automatically incorporates the exclusions (e.g., employee fringe benefits) and deductions (e.g., IRAs) used in arriving at FAGI. These exclusions and deductions constitute passive tax expenditures at the state level. The Tax Reform Act of 1986 eliminated or curtailed several tax expenditure items at both the federal level and for Montana. Nevertheless, most of the tax expenditures reported herein are passive in nature.

Measuring Tax Expenditures

Two methods were used to estimate the value of tax expenditures in this report. The first method, used to estimate passive (federal) provisions of the individual income and corporation license tax, allocates a portion of national estimates to Montana. Every year the staff of the federal Joint Committee on Taxation publishes its estimates of federal individual and corporate income tax expenditures for selected fiscal years. These estimates can then be allocated to states on the basis of relative total tax and tax rates at the national and state level.

Although this method is used by most states for deriving at least some of their tax expenditure estimates, it is also recognized as being a relatively crude estimating technique. For the individual income tax, it assumes that Montana's demography of individuals and jobs is the same as the national demography, and that Montanan's consumption and expenditure patterns parallel those of the nation. Obviously, this oversimplifies the Montana economic situation.

To an extent this problem is lessened for the corporation license tax because taxable incomes and tax rates are available by major industrial sectors at both the federal and state levels. Nevertheless, estimates derived using this method should be regarded as imprecise, and used perhaps only to gauge the relative magnitudes of different expenditure items.

The second method uses actual data available at the state level together with computer simulation modeling to produce much more reliable estimates of the impacts of certain tax expenditure items. This method was used to derive the estimates for Montana-specific reductions to income, itemized deductions, and credits for the individual income tax; credits for the corporation license tax; and all expenditure items reported for natural resources and property tax.

Using Tax Expenditures - Some Caveats

In most cases tax expenditure estimates should be viewed as a measure of the amount of relief, assistance, or subsidy currently being provided through tax codes, and **not** as the amount of revenue that would be gained by repealing expenditure provisions of tax law. There are several reasons for this.

First, estimates of tax expenditures are made in the absence of any assumptions regarding policy responses. For example, employer contributions for medical insurance premiums and medical care are currently excluded from the employee's reported income. Some may view the tax expenditure associated with this item as a measure of the revenue that would be gained by requiring employees to include this contribution in their incomes. However, in keeping with current policy, employees who itemize deductions might be allowed to include all or part of this contribution in their personal deduction for medical expense. A policy response of this nature would reduce the tax expenditure associated with this item considerably.

Second, tax expenditures are not additive. In other words, the revenue effect of rescinding all tax expenditure items cannot be estimated simply by adding the tax expenditures associated with each individual tax expenditure item. This is because many of the tax expenditure items are interrelated, and a simple sum of tax expenditures estimated in isolation does not take into account these interaction effects.

Furthermore, because each tax expenditure is measured in isolation, a simple summing of tax expenditures will bias the total effect downwards in the presence of a progressive tax rate schedule, such as the one used in Montana. If all tax expenditures were eliminated simultaneously, taxable incomes would rise much higher than if a single expenditure provision were eliminated, subjecting taxable incomes to much higher marginal tax rates.

(In practice, however, an understanding of the above principles has not prevented the reporting of totals derived in this manner in almost all tax expenditure reports.)

Third, tax expenditure estimates do not take into consideration taxpayer behavioral responses. For example, it is quite conceivable that eliminating the deduction for charitable contributions would substantially reduce the number and size of these contributions. Taxpayers may funnel these funds into other tax saving devices, thereby reducing the revenue gain estimated in the absence of any behavioral response.

Given these considerations, users should view tax expenditure estimates more as a measure of the amount of relief currently being provided, rather than as a measure of the revenue that could be generated from repealing the associated tax provision.

Tax Expenditure Reporting

Tax expenditure reporting and tax expenditure budgets are a relatively recent phenomenon. The earliest record of reporting government subsidies administered through the tax code is in the Federal Republic of Germany, in 1959.

In the U.S., the pioneering work of Stanley Surrey lead to the first federal tax expenditure budget, prepared by the Department of Treasury, in 1967. In 1971, California became the first state to adopt legislation requiring tax expenditure reports. California was followed by Wisconsin in 1973, and by Maryland and North Carolina in 1975. Today there are at least 20 states that regularly publish comprehensive or partial tax expenditure reports.

In almost all cases, tax expenditure reports and budgets are prepared in response to a statutory requirement. Usually, the statutes spell out the type of information the report is to contain, and the time period to be covered.

HB387, passed during the 1987 regular session, provides that the Department of Revenue Biennial Report may include specified information relating to tax expenditures. The bill did not contemplate a specific time period that the report is to cover.

However, the bill did specify that the report should include at least the following items of information:

1. Revenue losses attributable to

   a) personal income and corporation license tax exemptions,
   b) property tax exemptions for which application to the department or its agent is necessary,
   c) deferrals of income,
   d) credits allowed against Montana personal income tax or Montana corporation license tax,
   e) deductions of income, and
   f) any other identifiable preferential treatment of income or property.

2. Distributions of revenue losses across age and income brackets, whenever available.

3. Any known purpose for the preferential treatment, and a determination of the effectiveness of the preference.

4. Similar information from other states.

Following sections of this report discuss tax expenditures associated with the individual income tax, the corporation license tax, natural resources taxes, and the property tax. Almost all of the tax expenditure items reported here reflect a consensus of other states and the federal government. Additional items and information, which may not ordinarily be considered in tax expenditure reports, are included because of statutory requirements.

For each tax a brief introductory section defines the tax base, and other pertinent information.

The second section provides the detail, including a description and a purpose, for each expenditure item. As discussed earlier, there are two general purposes for tax expenditures: to provide financial assistance (economic relief), or to provide a financial incentive to encourage specific taxpayer behavior. In some cases it was possible to elaborate further on the purpose of the expenditure.

Final sections include a summary list of all tax expenditures and an appendix of selected individual income tax expenditures by decile grouping income brackets.

Concluding Remarks

Although a relatively recent phenomenon, tax expenditure reporting and tax expenditure budgets are becoming more and more prevalent at the state level.

As states adopt tax expenditure reporting, legislators and administrators would be well advised to keep the limitations of tax expenditure reports in perspective. Tax expenditure estimates are not estimates of the amount of revenue that would be generated by repealing the associated tax provision, but rather estimates of the amount of relief currently being provided through the tax code. These estimates are subject to several methodological ambiguities, and in some cases severe data limitations.

Tax expenditure reports and budgets are primarily designed to be informational tools. Nothing in these reports is intended to convey a judgement regarding the propriety of various tax provisions. Tax expenditure reporting may encounter widespread resistance if opponents view the process as a means of selecting provisions for repeal in order to enhance revenues.

Nevertheless, when used appropriately, the tax expenditure report or budget can be a valuable tool in providing lawmakers with added insight into the extent and distribution of governmental assistance.

INDIVIDUAL INCOME TAX

The starting point for calculating Montana individual income tax is federal adjusted gross income (FAGI). Montana-specific additions and reductions to income determine the taxpayer's Montana adjusted gross income (MAGI). From MAGI are subtracted either itemized or standard deductions and allowable taxpayer exemptions to arrive at the tax base, Montana taxable income (MTI).

A single tax table used by all filers is applied to taxable income to arrive at tax before credits. In applicable years this amount is adjusted upwards for any surtax in effect and any tax on lump sum distributions that the taxpayer may have. This amount is then reduced by any income tax credits the taxpayer may have to arrive at tax after credits.

The income tax base, and net liability may be summarized as follows:

	Income from all sources
less:	federal exclusions, and
	federal deductions
equals:	Federal Adjusted Gross Income
plus:	Montana additions, and
less:	Montana reductions
equals:	Montana Adjusted Gross Income
less:	deductions (itemized or standard), and
	exemptions
equals:	Montana Taxable Income
times:	tax table
plus:	surtax (in applicable years), and
	tax on lump sum distributions
equals:	Tax Before Credits
less:	credits
equals:	Tax After Credits

When computing tax liability, all filers use the same tax table. Montana is one of 10 states where married couples may choose to file separate returns if both have income in the same year. The 1990 tax table is shown below:

If Taxable Income is

Over	But not over	Then tax liability is		
$ 0	$ 1,600	2% of taxable income	less	$ 0
$ 1,600	$ 3,100	3% of taxable income	less	$ 16
$ 3,100	$ 6,300	4% of taxable income	less	$ 47
$ 6,300	$ 9,400	5% of taxable income	less	$ 110
$ 9,400	$ 12,600	6% of taxable income	less	$ 204
$ 12,600	$ 15,700	7% of taxable income	less	$ 330
$ 15,700	$ 22,000	8% of taxable income	less	$ 487
$ 22,000	$ 31,400	9% of taxable income	less	$ 707
$ 31,400	$ 55,000	10% of taxable income	less	$ 1,021
$ 55,000		11% of taxable income	less	$ 1,571

Surtax

In applicable years tax liability includes a surtax component. The 5% surtax currently in effect is due to expire December 31, 1990. Consequently, the estimates of the tax expenditures provided in this report do not include any surtax factor. If a 5% surtax were in effect in these years as well, the estimates would be 5% higher than currently reported.

Indexing

Montana has provided for full indexation of its income tax since 1981. The effect of indexing has been to reduce both tax liability and tax expenditure amounts. Indexing is considered to be an integral part of the normal tax structure, and, hence, is not considered to be a tax expenditure.

Sources of Tax Expenditures

There are four sources of tax expenditures in Montana's individual income tax. First, because Montana ties to the definition of federal adjusted gross income, all of the federal exclusions and deductions included in FAGI are also included in Montana adjusted gross income.

Second, Montana statutes provide for specific exclusions of certain types of income not provided for at the federal level.

The third source of tax expenditures includes the deductions for those taxpayers who file itemized returns. Most of these deductions are also tied directly to federal statutes. However, Montana also allows a deduction for federal income taxes paid during the tax year, and a deduction for child care expenses incurred by certain families.

The fourth source of tax expenditures includes Montana-specific tax credits.

The next section discusses these sources in order, and provides a brief description and purpose for each tax expenditure item.

INDIVIDUAL INCOME TAX EXPENDITURES - DETAIL

EXCLUSIONS FROM FEDERAL INCOME

The following exlusions from federal income (items 1-34) are passive tax expenditures from federal tax laws. The use of federal gross income greatly simplifies the administration of state tax code by use of similar definitions and tax forms.

1 BENEFITS AND ALLOWANCES TO ARMED FORCES PERSONNEL

MCA 15-30-111

Description
The value of in kind services received by military personnel are excluded from income. Also excluded are certain cash allowances, combat pay, and military discharge pay.

Purpose
Provides an incentive that makes military service more attractive financially, and makes military pay more competitive with civilian pay scales.

Fiscal Impact
FY 1992 . . . . . $ 1,333,000
FY 1993 . . . . . $ 1,353,000

2 MILITARY DISABILITY PENSIONS

MCA 15-30-111

Description
Retired military personnel who have at least a 30% disability may exclude qualified pension payments.

Purpose
Provides financial support for disabled military retirees.

Fiscal Impact
FY 1992 . . . . . $ 64,000
FY 1993 . . . . . $ 64,000

3 INCOME EARNED ABROAD BY U.S. CITIZENS

MCA 15-30-111

Description
The income of U.S. citizens whose principal residence is in a foreign country, and who live outside the U.S. for 11 out of 12 consecutive months, or who have joint residency in another country, is excluded from taxation.

The Tax Reform Act of 1986 placed a cap of $70,000 on this exclusion beginning tax year 1986. The exclusion does not apply to federal employees, including military personnel.

Purpose
Prevents the double taxation of income.

Fiscal Impact
FY 1992 . . . . . $ 947,000
FY 1993 . . . . . $ 967,000

4 SPECIAL RULES FOR MINING RECLAMATION RESERVES

MCA 15-30-111

Description
Normally, accounting rules would not allow a deduction for expenses associated with reclamation activities until the activities were actually performed.

However, taxpayers may make a special election to deduct current allocations to a reserve fund dedicated to reclamation activities. The amount allocable in each year is limited to the amount needed to raise the reserve to a level sufficient to reclaim, at current prices, the amount of land thus far disturbed.

Purpose
Provides an incentive to ensure funding for reclamation activities will be available at the time reclamation is to be performed.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

5 AGRICULTURAL COST SHARING PROGRAMS

MCA 15-30-111

Description
Conservation payments received under various programs of the U.S. Department of Agriculture are exempt from taxation. The payments must be used to conserve soil and water resources, improve forests, or provide a habitat for wildlife; must not contribute to annual increases in income from the property; and must be for a capital expense.
Purpose
Provides a subsidy and incentive for farmers to invest in conservation improvements.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

6 CANCELLATION OF INDEBTEDNESS INCOME OF FARMERS

MCA 15-30-111

Description
Reduction (discharge) of debt is income because it makes available assets previously offset by obligations. Generally, cancellation of indebtedness is included in income in cases where the debtor is solvent, but excluded from income in cases where the debtor is insolvent, up to the amount of insolvency.

The Tax Reform Act of 1986 provides that under certain circumstances discharge of debt of a solvent farmer may be treated as if the farmer were insolvent.

Purpose
This measure provided a means of alleviating the credit crisis in the farming community, while allowing farms operating at the margin to continue operating.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

7 INVESTMENT INCOME ON LIFE INSURANCE AND ANNUITY CONTRACTS

MCA 15-30-111

Description
Accumulated interest earned on the cash value of life insurance and annuity contracts is excluded from current income.

If the insurance policy is surrendered before death of the policyholder, only the excess of surrender value over premium payments is taxable.

The insurance accumulated on annuity contracts is not taxable until the annuitant begins receiving payments on the contract.

Purpose
Excluding this income provides an incentive for increasing the savings and investment pool. In the case of annuity interest, this exclusion prevents the taxation of income until it is constructively received.

Fiscal Impact
FY 1992 . . . . . $ 4,824,000
FY 1993 . . . . . $ 5,275,000

8 CAPITAL GAINS ON HOME SALES FOR PERSONS 55 AND OVER

MCA 15-30-111

Description
Taxpayers age 55 or older are provided a one-time exclusion of up to $125,000 on the gain from the sale of their principal residence.

Purpose
Provides financial assistance to homeowners age 55 or older who sell their homes, and reduces transactions costs in the transfer of certain assets.

Fiscal Impact
FY 1992 . . . . . $ 2,409,000
FY 1993 . . . . . $ 2,538,000

9 EXCLUSION OF CAPITAL GAINS AT DEATH

MCA 15-30-111

Description
Accrued capital gains on property transferred at death is not included as income to the heirs or the estate.

Purpose
Provides relief to heirs and estates subject to inheritance and estate taxes.

A. Capital gains at death.

Fiscal Impact
FY 1992 . . . . . $ 3,768,000
FY 1993 . . . . . $ 4,135,000

B. Carryover basis on gifts.

Fiscal Impact
FY 1992 . . . . . $ 669,000
FY 1993 . . . . . $ 753,000

10 PERMANENT EXEMPTION FROM IMPUTED INTEREST RULES

MCA 15-30-111

Description
In certain cases where installment sales or loan agreements fail to provide for interest at a minimum rate specified by law or the IRS, interest is imputed and included in gross income. Exemptions from the imputed interest rules include loans of less than $10,000, and a special method for computing income from a gift loan of less than $100,000.

Purpose
Provide ease in administration.

Fiscal Impact
FY 1992 . . . . . $ 129,000
FY 1993 . . . . . $ 129,000

11 LIKE-KIND EXCHANGES

MCA 15-30-111

Description
No gain or loss is recognized in cases where property held for productive use in business is exchanged solely for property of a "like kind". The provision does not apply to inventory, stocks, bonds, notes, and various other script.

Purpose
Provides for mobility and ease of administration in the transfer of certain assets.

Fiscal Impact

FY 1992	$ 129,000
FY 1993	$ 129,000

12 GAIN FROM SALE OR EXCHANGE TO EFFECTUATE POLICIES OF THE FCC

MCA 15-30-111

Description
Under certain conditions a taxpayer, who is ordered to sell or exchange his/her holding to comply with a change in policy or the creation of a new policy by the Federal Communications Commission, can choose to treat the situation as an involuntary conversion of property. Under such circumstances, any gain which is identified, will not be recognized.

Purpose
To promote compliance with new or changing policies regulated by the Federal Communications Commission.

Fiscal Impact

FY 1992	Minimal
FY 1993	Minimal

13 SCHOLARSHIP AND FELLOWSHIP INCOME

MCA 15-30-111

Description
Students who are degree candidates can exclude scholarship and fellowship income if amounts are not compensation for services. There is a $3,600 limit for non-degree students.

Purpose
Provide financial assistance to college degree candidates.

Fiscal Impact

FY 1992	$ 367,000
FY 1993	$ 387,000

14 EDUCATION SAVINGS BONDS

MCA 15-30-111

Description
Certain individuals who pay higher education expenses during a tax year may exclude the amount received (both interest and principal) via the redemption of a U.S. Savings Bond from gross income. If an individual is married, he/she must file a joint return to qualify for the exclusion.

Purpose
To provide an incentive for individuals to invest in U.S. Savings Bonds as a means to save for future higher education expenses.

Fiscal Impact

FY 1992	$ 44,000
FY 1993	$ 109,000

15 EMPLOYEE MEALS AND LODGING (OTHER THAN MILITARY)

MCA 15-30-111

Description
Meals or lodging furnished to an employee and his family are nontaxable provided that 1) they are furnished for the convenience of the employer, 2) in the case of meals, they are furnished on the employer's premises, and 3) in the case of lodging, the employee is required to accept the lodging as a condition of his employment.

Purpose
Enhances mobility of labor, and provides ease in administration.

Fiscal Impact
FY 1992 . . . . . $ 516,000
FY 1993 . . . . . $ 516,000

16 CAFETERIA PLAN BENEFITS

MCA 15-30-111

Description
Cafeteria plans allow participating employees to chose among several employer-provided fringe benefits, rather than accepting an employer-stipulated benefits package. "Qualifying benefits" are any benefits that are excluded from income by a specific provision of federal codes including group life insurance, accident or health benefits, legal services, etc.

The value of the benefits provided under cafeteria plans is excluded from the employee's gross income.

Purpose
Provides an incentive that encourages the substitution of nontaxable fringe benefits for taxable wages and salaries.

Fiscal Impact
FY 1992 . . . . . $ 1,859,000
FY 1993 . . . . . $ 2,221,000

17 RENTAL ALLOWANCES OF MINISTER'S HOMES

MCA 15-30-111

Description
A minister may exclude a rental allowance or the rental value of a parsonage furnished by the church.

Purpose
Provides financial assistance to individuals in the ministry.

Fiscal Impact
FY 1992 . . . . . $ 129,000
FY 1993 . . . . . $ 173,000

18 MISCELLANEOUS FRINGE BENEFITS

MCA 15-30-111

Description
Miscellaneous fringe benefits such as employee discounts, no-additional cost services, and de minimus fringe benefits such as free meals in subsidized cafeterias are excluded from gross income.

Purpose
Provides an incentive that encourages the substitution of nontaxable fringe benefits for taxable wages and salaries. This provision also recognizes the significant administrative impracticalities associated with monitoring this type of income.

Fiscal Impact

FY 1992	$ 2,776,000
FY 1993	$ 3,015,000

19 EMPLOYEE AWARDS

MCA 15-30-111

Description
Employee achievement awards are deductible only to the extent that the employer can deduct the cost of the award. Employer deductibility is limited to $400 for any individual, or $1,600 for a "qualified plan award".

Purpose
Provides an incentive to promote and foster productive performance and employee morale.

Fiscal Impact

FY 1992	$ 64,000
FY 1993	$ 64,000

20 INCOME EARNED BY EMPLOYEE BENEFIT ORGANIZATIONS

MCA 15-30-111

Description
Voluntary employees' beneficiary associations (VEBAs) provide benefit payments to their members and their dependents. Supplemental unemployment benefit trusts (SUBs) provide payments to separated

employees. The earnings on the monies invested in these organizations is exempt from gross income.

Purpose
Provides an incentive to accumulate funds for the purposes of providing health care and other benefits, and providing income security during periods of unemployment.

Fiscal Impact
FY 1992 . . . . . $ 322,000
FY 1993 . . . . . $ 322,000

21 EMPLOYER-PROVIDED CHILD CARE

MCA 15-30-111

Description
The value of employer-provided child care, not to exceed the employee's earned income, is excluded from gross income.

Purpose
Provides an economic incentive for employer's to provide child care, and aides in the ability of parents to work outside the home.

Fiscal Impact
FY 1992 . . . . . $ 193,000
FY 1993 . . . . . $ 238,000

22 CERTAIN FOSTER CARE PAYMENTS

MCA 15-30-111

Description
Subject to certain conditions and limits, payments for foster care for care provided in the provider's home are excluded from income.

Purpose
Provides an incentive and financial assistance in the caring of foster care individuals.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

23 CONTRIBUTIONS BY EMPLOYERS AND SELF-EMPLOYED FOR MEDICAL INSURANCE PREMIUMS AND MEDICAL CARE

MCA 15-30-111

Description
Employer contributions to employee health insurance plans, and reimbursements to employees for medical care are excluded from employees' gross incomes.

Purpose
Provides an incentive for employers to provide compensation in the form of nontaxable health benefits, rather than taxable income, and promotes the expansion of comprehensive health care plans.

Fiscal Impact
FY 1992 . . . . . $ 23,560,000
FY 1993 . . . . . $ 26,455,000

24 UNTAXED MEDICARE BENEFITS

MCA 15-30-111

Description
Medicare benefits are excluded from gross income.

Purpose
Provides financial assistance to elderly individuals in need of medical services.

Fiscal Impact
FY 1992 . . . . . $ 6,386,000
FY 1993 . . . . . $ 7,417,000

25 WORKER'S COMPENSATION BENEFITS

MCA 15-30-111

Description
Unless attributable to medical expense deductions taken in an earlier year, worker's compensation benefits are not included in gross income.

Purpose
Provides financial assistance and income security to recipients of benefits.

Fiscal Impact

FY 1992 . . . . . $ 1,591,000
FY 1993 . . . . . $ 1,656,000

26 SPECIAL BENEFITS TO DISABLED COAL MINERS

MCA 15-30-111

Description

Benefits provided by certain federal programs to coal miners totally disabled as a result of black lung disease, to widows of coal miners who died as a result of black lung disease, and their dependents are excluded from income.

Purpose

Provides financial assistance and income security to recipients of benefits.

Fiscal Impact

FY 1992 . . . . . $ 64,000
FY 1993 . . . . . $ 64,000

27 PUBLIC ASSISTANCE BENEFITS

MCA 15-30-111

Description

Public assistance benefits paid through Aid to Families with Dependent Children, General Assistance, Emergency Assistance, Supplemental Security Income, etc., are excluded from income.

Purpose

Most of these types of benefits, provided on a means-tested basis, go to families and individuals of very low incomes. Taxing these benefits would be counter to the reason why they were provided in the first place.

Fiscal Impact

FY 1992 . . . . . $ 238,000
FY 1993 . . . . . $ 258,000

28 NET EXCLUSION OF PENSION CONTRIBUTIONS AND EARNINGS

MCA 15-30-111

Description
Employer and employee contributions to a qualified pension plan, as well as the earnings on the contributions, are excluded from gross income. Employer contributions are deductible.

In reality, this does not represent an exclusion of income but a deferral of income because the contributions are taxed when received as benefits in later years. The fiscal impact shown reflects the expenditure associated with excluding current-year pension contributions and earnings, net of all taxed pension benefits and distributions.

Purpose
Provides an incentive to provide compensation in the form of retirement plan contributions, rather than wages and salaries. Promotes income stability in retirement years.

Fiscal Impact
FY 1992 . . . . . $ 34,580,000
FY 1993 . . . . . $ 35,978,000

29 EMPLOYER-PROVIDED GROUP TERM LIFE INSURANCE PREMIUMS

MCA 15-30-111

Description
Employer-provided group term life insurance premiums are excluded from the employee's gross income to the extent that the premiums provide coverage of $50,000 or less. Premiums for coverage in excess of $50,000, less any contributions by the employee for such premiums, are included in gross income.

Disabled employees are not subject to the $50,000 limitation.

Purpose
Provides an incentive for employers to provide compensation in the form of nontaxable insurance rather than taxable wages and salaries. Contributes to income security for survivors in the event of employee's death.

Fiscal Impact
FY 1992 . . . . . $ 1,269,000
FY 1993 . . . . . $ 1,333,000

30 EMPLOYER-PROVIDED ACCIDENT AND DISABILITY INSURANCE PREMIUMS

MCA 15-30-111

Description
Premiums paid by an employer to an employee accident and disability plan are excluded from the gross income of the employee.

Purpose
Provides an incentive for employers to provide compensation in the form of nontaxable insurance, rather than taxable wages and salaries. Contributes to income security in the event of disabling accidents.

Fiscal Impact
FY 1992 . . . . . $ 64,000
FY 1993 . . . . . $ 64,000

31 EMPLOYER-PROVIDED DEATH BENEFITS

MCA 15-30-111

Description
Benefits paid by an employer in the event of an employee's death, are excludable (up to $5,000) from the income of the beneficiaries or the employee's estate.

Purpose
Provides financial assistance to the beneficiaries of the employee.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

32 UNTAXED SOCIAL SECURITY BENEFITS

MCA 15-30-111

Description
Most social security benefits are untaxed.

However, beginning in 1984 the federal government began taxing a portion of the social security benefits of taxpayers with adjusted gross incomes above $32,000 for married couples, and $25,000 for single filers. Montana follows federal laws with respect to the taxation of social security benefits.

Purpose
Contributions to the social security system come from a tax on employees' wages and salaries, employer's matching amounts, and earnings on the accumulated balance. The tax paid by employees, however, is applied only to the first $51,300 of wages (1990). Wages in excess of this amount are not subject to the social security tax.

Because social security benefits essentially represent a return of previous taxes, to tax them would result in a tax on a tax. Consequently, they are excluded from income.

Fiscal Impact
FY 1992 . . . . . $ 14,923,000
FY 1993 . . . . . $ 15,393,000

33 VETERAN'S BENEFITS AND SERVICES

MCA 15-30-111

Description
All benefits administered by the Veteran's Administration are excluded from a taxpayer's gross income.

Purpose
Provide financial assistance to veterans.

Fiscal Impact
FY 1992 . . . . . $ 1,031,000
FY 1993 . . . . . $ 1,076,000

34 INTEREST ON MONTANA STATE AND LOCAL GOVERNMENT DEBT

MCA 15-30-111

Description
Interest received by individuals on Montana state and/or local government securities is not included in state adjusted gross income.

Purpose
Provide a financial incentive for investment in Montana state and local government securities.

Fiscal Impact
Data limitations pertaining to the split in the distribution of this income between in-state and out-of-state investors precludes an accurate estimate of the fiscal impact.

DEDUCTIONS FROM FEDERAL INCOME

As with the previous section, the following deductions from federal income (items 35-51) are passive tax expenditures, in that they are derived from federal tax laws. The adoption of these deductions at the state level simplifies administration of the state tax code.

35 EXPENSING OF EXPLORATION AND DEVELOPMENT COSTS

MCA 15-30-111

Description
"Intangible" drilling and development costs of oil, gas, and geothermal wells, and expenditures for the development of minerals other than oil or gas may be fully deducted in the year in which they occur.

Purpose
Provides a financial incentive for the exploration and development of natural resources.

Fiscal Impact

FY 1992	$ 322,000
FY 1993	$ 367,000

36 EXCESS OF PERCENTAGE OVER COST DEPLETION

MCA 15-30-111

Description
All exhaustible natural deposits and timber qualify for deduction of a reasonable allowance for depletion based on the taxpayer's cost or other basis of the resources. This is referred to as "cost depletion", and is very similar to depreciation in its application.

But in the case of mines and certain oil and gas properties, the depletion deductions may be computed as a specified percentage of gross income (which has no relationship to basis), if greater than cost depletion.

The amount of percentage depletion that is in excess of cost depletion is considered a tax expenditure.

Purpose
Provides a financial incentive to small operators for the extraction of oil, gas, and mine deposits.

Fiscal Impact

FY 1992	$ 193,000
FY 1993	$ 193,000

37 EXPENSING OF TERTIARY INJECTIONS

MCA 15-30-111

Description
Oil and gas operations using tertiary methods of recovery are allowed to deduct fully the cost of tertiary injections in the year in which the expense is incurred.

Purpose
Reduces the cost of tertiary recovery, providing an incentive to continue oil production through more costly methods, rather than abandon the well.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

38 EXPENSING MULTIPERIOD TIMBER GROWING COSTS

MCA 15-30-111

Description
Costs incurred for management and protection (labor and materials for fire, disease and insect control, and expenses for the removal of unwanted trees and brush) of timber stands within the first one to two years after planting are currently deductible.

Purpose
Provides financial assistance in the development of new stands of timber.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

39 EXPENSING CERTAIN AGRICULTURAL MULTIPERIOD PRODUCTION COSTS

MCA 15-30-111

Description
Farmers have the option of deducting or capitalizing the deductible expenses of current operations during the pre-productive period of farms. Farmers may also deduct the pre-productive period expenses associated with the production of any plant or animal, regardless of the length of their pre-productive period. This last option is not available to any corporation, partnership, syndicate, or tax shelter required to use the accrual method of accounting.

Purpose
Provides economic relief to the farming community.

Fiscal Impact
FY 1992 . . . . . $ 129,000
FY 1993 . . . . . $ 84,000

40 CASH ACCOUNTING FOR AGRICULTURE

MCA 15-30-111

Description
Farmers may elect the cash method of accounting, rather that the accrual method. Generally, the accrual method is preferred as it takes into account the income of receivables. The difference in net income between the cash and accrual methods is considered as a tax expenditure.

Purpose
Provides financial assistance to farmers electing the cash system of accounting.

Fiscal Impact

FY 1992	$ 193,000
FY 1993	$ 149,000

41 DEFERRAL OF CAPITAL GAINS ON HOME SALES

MCA 15-30-111

Description
If a taxpayer sells his principal residence, and buys and uses another as his principal residence within a period beginning 2 years before and ending 2 years after the date of the sale, gain on the sale is not included in gross income when the cost of the new residence exceeds the adjusted selling price of the old.

If the cost of the new residence is less than the selling price of the old, gain is recognized to the extent of the difference.

Purpose
Enhances labor mobility in situations where homeowners are required to move as a result of job transfers; allows homeowners to purchase larger homes without tax penalty.

Fiscal Impact

FY 1992	$ 7,293,000
FY 1993	$ 7,679,000

42 DEPRECIATION IN EXCESS OF ALTERNATIVE DEPRECIATION SYSTEMS

MCA 15-30-111

Description

Deductions for depreciation are allowed to reflect the wear, tear, and obsolescence of goods purchased for use in business that have a useful life of more than one year.

Economic depreciation is based on the expected economic life of an asset. Economic depreciation varies from asset to asset, and may be significantly different for personal property relative to real property.

Depreciation deductions may be increased in the early years of an assets life in two ways: (1) alternative depreciation methods, such as double declining balance, may be applied, or (2) the economic life of the asset may be arbitrarily shortened, as was done with most assets under the Accelerated Cost Recovery System (ACRS).

Prior to 1981, depreciation was calculated using the Class Life Asset Depreciation Range System (ADR). Assets were assigned useful lives approximating their economic life, and taxpayers were allowed to use sum-of-the-year's-digits or the double declining balance methods, as well as the straight-line method of accounting.

The Economic Recovery Tax Act of 1981 (ERTA) introduced the Accelerated Cost Recovery System (ACRS), which allowed the use of accelerated accounting methods applied over substantially shortened asset lives. ACRS is applicable to property placed in service after 1980 and before 1987.

The Tax Reform Act of 1986 (TRA86) revamped depreciation laws by introducing the Modified Accelerated Cost Recovery System (MACRS). MACRS extended the depreciable life of residential and nonresidential real estate, and required use of the straight-line method for these assets. With some exceptions, however, class lives for other property was kept the same as under ACRS, with some acceleration in accounting methods for specific classes of property allowed.

Depreciation that is in excess of "normal" depreciation schedules is considered a tax expenditure.

Purpose
Accelerated methods of depreciation provide an incentive for investment in equipment and capital formation by reducing the effective price of capital assets.

Fiscal Impact
A) Rental Real Estate
FY 1992 . . . . . $ 322,000
FY 1993 . . . . . $ 322,000

B) Other Real Estate
FY 1992 . . . . . $ 129,000
FY 1993 . . . . . $ 129,000

C) Equipment
FY 1992 . . . . . $ 2,712,000
FY 1993 . . . . . $ 2,950,000

43 EXPENSING DEPRECIABLE BUSINESS PROPERTY (UP TO $10,000)

MCA 15-30-111

Description
Certain taxpayers may elect to expense up to $10,000 per year of the value of recovery property used in the active conduct of a trade or business. The $10,000 expense election is reduced dollar-for-dollar for eligible personal property placed in service in excess of $200,000.

Purpose
Provides an additional incentive for investment in equipment, especially for small businesses.

Fiscal Impact
FY 1992 . . . . . $ 64,000
FY 1993 . . . . . $ 64,000

44 AMORTIZATION OF BUSINESS START-UP COSTS

MCA 15-30-111

Description
Taxpayers may elect to amortize qualifying business start-up costs over a five

year period. Start-up costs include expenditures connected with investigating the creation or acquisition of an active trade or business, creating an active trade or business, etc.

In the absence of these provisions, these costs would be included in the original basis of the business and not recovered until the business was sold.

Purpose
Provide an incentive for the formation of new businesses, and mitigate the tax impact on new businesses.

Fiscal Impact

FY 1992	$ 129,000
FY 1993	$ 129,000

45 EXPENSING MAGAZINE CIRCULATION EXPENDITURES

MCA 15-30-111

Description
Generally, expenses incurred in creating or developing an asset must be capitalized. However, publishers of periodicals can deduct currently their expenditures to establish, maintain, and increase circulation.

Purpose
Provides financial assistance to publishers of periodicals.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

46 DEFERRAL OF GAIN ON INSTALLMENT SALES

MCA 15-30-111

Description
A method of accounting known as installment reporting may be used for sales of personal property by a dealer who regularly sells or otherwise disposes of personal property on the installment plan. Instead of reporting income in the year of the sale, the taxpayer is allowed to report income in the year when cash from the sale is received.

Purpose
Provides financial assistance to dealers providing installment sales by averting

potential cash flow problems.

Fiscal Impact

FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

47 CASH ACCOUNTING OTHER THAN AGRICULTURE

MCA 15-30-111

Description

Taxpayers may elect the cash method of accounting, rather than the accrual method. Generally, the accrual method is preferred as it takes into account the income of receivables. The difference in net income between the cash and accrual methods is considered as tax expenditure.

Purpose

Provides financial assistance to businesses electing the cash system of accounting.

Fiscal Impact

FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

48 EXEMPTION OF RIC EXPENSES FROM MISCELLANEOUS DEDUCTION FLOOR

MCA 15-30-111

Description

The adjusted gross income of a Regulated Investment Company (RIC) is computed the same as for an individual except the RIC can deduct in full the costs associated with its administration. These expenses are not included in those miscellaneous deductions subject to the 2% floor.

Purpose

To stimulate investment in the economy through the use of RICs.

Fiscal Impact

FY 1992 . . . . . $ 302,000
FY 1993 . . . . . $ 367,000

49 PARENTAL PERSONAL EXEMPTION FOR STUDENTS AGE 19 OR OVER

MCA 15-30-111

Description
Taxpayer's are allowed to claim an exemption for each dependent. Generally, persons with taxable gross income equal to or greater than the exemption amount don't qualify as dependents. One exception to this rule is that the gross income test does not apply if the dependent is the taxpayer's child and is a student.

Purpose
Provide incentive, and financial assistance for education of taxpayer's children.

Fiscal Impact

FY 1992	$ 193,000
FY 1993	$ 193,000

50 EXPENSING COSTS OF REMOVING ARCHITECTURAL BARRIERS

MCA 15-30-111

Description
A taxpayer can elect to treat up to $35,000 of qualified architectural and transportation barrier removal expenses as a current deduction, rather than as a charge to a capital account.

To qualify, the expenditure must be for the purpose of making any facility or public transportation vehicle owned or leased by the taxpayer for use in his trade or business more accessible to and usable by handicapped and elderly individuals.

Purpose
Provide financial assistance to make businesses more accessible to the elderly and handicapped.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

51 INDIVIDUAL RETIREMENT PLANS (IRAs, KEOGH, ETC.)

MCA 15-30-111

Description
Individuals who are not active participants in an employer-sponsored retirement plan can deduct up to $2,000 each for contributions to an IRA. A married individual with an unemployed spouse can deduct up to $2,250.

Individuals who are participants in an employer-sponsored retirement plan may deduct up to $2,000 for contributions to an IRA if they are single and adjusted gross income is less than $25,000 or married with income less than $40,000.

The deduction is phased out for single taxpayers with incomes between $25,000 and $35,000 and for married couples with incomes between $40,000 and $50,000.

Self-employed taxpayers may deduct up to the lesser of $30,000 or 25% of compensation for contributions to a self-employed (Keogh) retirement plan.

Purpose
Provide an incentive to increase savings and investment.

Fiscal Impact

FY 1992	$ 6,088,000
FY 1993	$ 6,366,000

MONTANA REDUCTIONS/EXCLUSIONS

The following reductions and exclusions (items 52-56) are above and beyond federal exclusions. They are specific to Montana and were enacted by the state legislatures.

52 CAPITAL GAINS EXCLUSION

MCA 15-30-111(2)

Description
Taxpayers are allowed to exclude from adjusted gross income 40% of the gain from the sale or exchange of capital assets stemming from agreements entered into before January 1, 1987.

Purpose
The Tax Reform Act of 1986 eliminated the 60% exclusion for long-term capital gains, and required 100% of capital gains to be reported as ordinary income. This exclusion provides an inflationary hedge for Montana investors who entered into installment sales types of agreements prior to December 31, 1986. Over time this tax expenditure will erode to zero.

Fiscal Impact
FY 1992 . . . . . $ 1,552,000
FY 1993 . . . . . $ 1,381,000

53 INTEREST EXCLUSION FOR ELDERLY

MCA 15-30-111(2)

Description
Taxpayers age 65 or older are allowed an exclusion of interest income up to $800 if filing a single (or separate) return, and up to $1,600 if filing a joint return.

Purpose
Provide economic relief to elderly taxpayers.

Fiscal Impact
FY 1992 . . . . . $ 1,697,000
FY 1993 . . . . . $ 1,772,000

54 EXEMPT RETIREMENT INCOME

MCA 15-30-111(2)

Description
Under current law federal retirees, and state and local government retirees are allowed to fully exclude benefits paid from a *bona fide* retirement plan. Private sector retirees, and public employment retirees from a state other than Montana, are allowed to exclude up to $3,600 of pension income.

The tax expenditures shown below reflect this current law treatment. However, the 1991 Legislature is expected to address the equal treatment of federal and state employees in response to the U.S. Supreme Court decision in *Davis vs. Michigan Department of Revenue.* The treatment of retirement benefits following the 1991 session may significantly alter the tax expenditure amounts shown below.

Purpose
Provide economic relief to retirees.

Fiscal Impact

FY 1992	$ 20,961,000
FY 1993	$ 24,136,000

55 OTHER REDUCTIONS

MCA 15-30-111 and 80-12-212.

Description
Montana statutes provide for the following exclusions from income:

a) disability payments, up to $5,200;

b) employer-paid wages and salaries reduced by the amount of the federal targeted jobs credit or work incentive program credit;

c) up to $50,000 in income or capital gains from the sale of land consisting of more than 80 acres to a beginning farmer at 9% or less interest on a long-term contract;

d) income earned by an enrolled member of an American Indian tribe while living and working on a reservation;

e) amounts contributed by small businesses to independent liability funds;

f) undistributed earnings from federal S Corporations for which a comparable election has not been made for state tax purposes;

g) tips;

h) compensation for active duty pay as a member of the regular armed forces; and

i) unemployment benefits.

Purpose
The exclusions of income from disability payments, tips, service in the armed forces, and unemployment benefits serve to provide specific groups of taxpayers with financial relief.

Deductions for income associated with wages and salaries reduced by federal

targeted jobs or work incentive program credits, land sales to beginning farmers, and amounts contributed to independent liability funds provide an incentive to encourage specific taxpayer behavior.

Income earned by Indians while working on a reservation is by federal statute exempt from state taxation.

A deduction is allowed for undistributed earnings from corporations that have made a federal (but not state) S Corporation election in order to reconcile the divergent tax treatment afforded the same corporation at different levels of government.

Fiscal Impact
Because these items are all reported on a single line on the tax form, it is not possible to accurately disaggregate the individual impact of each one. Therefore, the total expenditure of all of the above items taken together is reported.

FY 1992	$ 12,835,000
FY 1993	$ 13,552,000

56 ADDITIONAL EXEMPTIONS FOR THE BLIND AND ELDERLY

MCA 15-30-112

Description
Taxpayers and their spouses are both allowed additional exemptions if blind or over the age of 65. In tax year 1989 there were an additional 77,584 exemptions claimed for the blind and/or elderly.

Purpose
Provide financial assistance to the blind and elderly.

Fiscal Impact

FY 1992	$ 5,033,000
FY 1993	$ 5,427,000

ITEMIZED DEDUCTIONS

Montana's itemized deductions are primarily passive in nature in that most are tied to allowable federal itemized deductions. However, itemized deductions for federal income taxes paid during the tax year, and child and dependent care expenses are Montana-specific deductions.

57 MEDICAL AND DENTAL EXPENSE

MCA 15-30-121(1)

Description
Expenditures for specified medical expenses are deductible to the extent that they exceed 7.5% of the taxpayer's adjusted gross income.

Purpose
The deduction for medical expenses is provided on the grounds that these types of expenditure are largely involuntary, and may be burdensome to the point of substantially reducing tax capacity.

Fiscal Impact

FY 1992	$ 7,447,000
FY 1993	$ 8,178,000

58 FEDERAL INCOME TAX PAID

MCA 15-30-121(2)

Description
A deduction is allowed for the amount of federal income tax actually paid during the tax year.

Purpose
Provides financial assistance to those taxpayers using this deduction.

Fiscal Impact

FY 1992	$ 97,011,000
FY 1993	$ 102,424,000

59 REAL AND PERSONAL PROPERTY TAXES

MCA 15-30-121(1)

Description
A deduction is allowed for any taxes paid on real and personal property not associated with the taxpayer's business.

Purpose
Allowing a deduction for property taxes enhances the ability of local governments to raise revenues needed to fund local activities.

Fiscal Impact
FY 1992 . . . . . $ 8,102,000
FY 1993 . . . . . $ 8,148,000

60 OTHER DEDUCTIBLE TAXES

MCA 15-30-121(1)

Description
A deduction is allowed for motor vehicle fees and taxes, and any other deductible taxes paid during the tax year.

Purpose
Allowing a deduction for motor vehicles is consistent with allowing a deduction for other forms of personal property.

Fiscal Impact
FY 1992 . . . . . $ 1,466,000
FY 1993 . . . . . $ 1,502,000

61 HOME MORTGAGE INTEREST

MCA 15-30-121(1)

Description
Qualified residence interest is deductible to the extent that it represents interest on "acquisition indebtedness" not in excess of $1,000,000; or "equity indebtedness" not in excess of $100,000. "Acquisition indebtedness" is debt incurred in acquiring, constructing, or improving the residence; "equity indebtedness" is any indebtedness, other than acquisition indebtedness, to the extent that total indebtedness does not exceed the fair market value of the residence.

Purpose
The deduction for home mortgage interest reduces the cost of homeownership and promotes the social goal of affordable housing.

Fiscal Impact
FY 1992 . . . . . $ 26,301,000
FY 1993 . . . . . $ 26,959,000

62 OTHER INTEREST

MCA 15-30-121(1)

Description
The deduction for investment interest was limited by the Tax Reform Act of 1986. Subject to a five-year phase-in rule, investment interest will be deductible only to the extent of net investment income.

Purpose
Technically, the deduction for interest on investments represents an allowance for costs associated with acquiring specific assets. Failing to allow the deduction would result in an overstatement of net income. Practically speaking, the deduction provides an incentive for savings and investment.

Fiscal Impact
FY 1992 . . . . . $ 2,574,000
FY 1993 . . . . . $ 2,505,000

63 CONTRIBUTIONS

MCA 15-30-121(1)

Description
Contributions to organizations that are religious, charitable, educational, scientific, or literary in purpose are deductible.

Purpose
This deduction acts to reduce the cost of making charitable contributions, thereby increasing the amount of these types of contributions.

Fiscal Impact
FY 1992 . . . . . $ 10,670,000
FY 1993 . . . . . $ 10,977,000

64 CHILD/DEPENDENT CARE EXPENSE

MCA 15-30-121(3)

Description
This deduction is not provided at the federal level, but is provided specifically through state statutes. Subject to specific rules and limitations, taxpayers are allowed a deduction for employment-related expenses associated with child and/or dependent care.

Purpose
This deduction is intended to provide economic relief to households where the expense of caring for dependents, necessary to allow gainful employment, is detrimentally burdensome.

Fiscal Impact

FY 1992	$ 84,000
FY 1993	$ 70,000

65 CASUALTY/THEFT LOSSES

MCA 15-30-121(1)
Description
A taxpayer may deduct casualty and theft losses on personal property only to the extent that 1) the loss exceeds $100, and 2) all of the casualty or theft losses for the year exceed 10% of adjusted gross income for the year. With regard to theft losses, the loss amount is equal to the lesser of the property's fair market value or adjusted basis, reduced by any insurance or other compensation received or recoverable.

Purpose
Casualty and theft losses are viewed as "negative" income in the year of loss, and are hence, allowed as a deduction. The validity of this deduction is sometimes called into question on the grounds that almost all such losses are covered by insurance.

Fiscal Impact

FY 1992	$ 234,000
FY 1993	$ 237,000

66 MOVING EXPENSE

MCA 15-30-121(1)

Description
Beginning in 1987, the costs associated with a job-related move were no longer a deduction towards federal adjusted gross income, but became an itemized deduction. All direct, and certain indirect, costs associated with a job-related move are deductible.

Purpose
The purpose of allowing this deduction is two-fold: first, the deduction represents a cost of producing income; second, the deduction contributes to increases in the mobility of labor.

Fiscal Impact

FY 1992	$ 823,000
FY 1993	$ 813,000

67 MISCELLANEOUS DEDUCTIONS

MCA 15-30-121(1)

Description
The Tax Reform Act of 1986 provided for two types of miscellaneous deductions. The first type, which includes unreimbursed job related expenses, and expenses associated with producing other income, are subject to a 2% of adjusted gross income floor.

Other miscellaneous expenses, such as gambling losses, are not subject to the floor.

Purpose
This deduction is allowed on the general understanding that costs associated with the production of income are appropriately deductible.

Fiscal Impact

FY 1992	$ 5,236,000
FY 1993	$ 5,287,000

MONTANA CREDITS

The following state tax credits (items 68-76) are all tax expenditures at the state level. While some of the credits are based on similar federal credits, they were not made credits because of ease of administration, rather the Montana Legislature previously decided to provide financial relief in these areas.

68 INCOME TAXES PAID TO OTHER STATES OR COUNTRIES

MCA 15-30-124

Description
Residents whose Montana adjusted gross income includes income from a state or country which does not allow a credit for Montana income tax are allowed a credit for income tax paid the other state or country.

Purpose
Prevents the double taxation of income.

Fiscal Impact

FY 1992	$ 4,358,000
FY 1993	$ 4,720,000

69 CONTRACTOR'S GROSS RECEIPTS

MCA 15-50-207

Description
Public contractor's are required to pay an additional license fee equal to 1% of the gross receipts from public contracts during the income year for which the license is issued. This additional fee is allowed as a credit against the contractor's individual income tax liability.

Purpose
These provisions of tax law facilitate the taxation of primary and secondary contractor's while protecting the primary contractor from being taxed twice on the same earnings.

Fiscal Impact

FY 1992	$ 114,000
FY 1993	$ 124,000

70 INVESTMENT CREDIT

MCA 15-30-162

Description
Montana allows an investment credit equal to 5% of the federal investment credit up to a maximum of $500 in any given taxable year. The Tax Reform Act of 1986 repealed the federal investment credit. Consequently, the tax expenditures associated with this credit in future years will reflect only the carryforward amounts allowed under current law.

Purpose
Investment credit provisions are designed to stimulate investment and economic development.

Fiscal Impact

FY 1992	$ 577,000
FY 1993	$ 477,000

71 INSTALLATION OF NON-FOSSIL ENERGY SYSTEMS

MCA 15-32-201

Description
A resident taxpayer who installs an energy system using a non-fossil form of energy generation in his principal dwelling prior to January 1, 1993, is entitled to a credit equal to 10% of the first $1,000 and 5% of the next $3,000 of the installed cost of such a system.

Purpose
Provide an economic incentive for the installation of non-fossil energy systems, promote conservation of fossil fuels.

Fiscal Impact

FY 1992	$ 55,000
FY 1993	$ 55,000

72 INVESTMENT IN ENERGY CONSERVATION INSTALLMENTS

MCA 15-32-109

Description
A resident taxpayer who makes a capital investment in a building for an energy conservation purpose is allowed a credit equal to 5% of the expenditure

up to $150 for a residential building and 5% of the expenditure up to $300 for a building not used as a residence.

Purpose
Provide an economic incentive for energy conservation installments, promote conservation of fossil fuels.

Fiscal Impact
FY 1992 . . . . . $ 100,000
FY 1993 . . . . . $ 100,000

73 WIND-POWERED GENERATION EQUIPMENT

MCA 15-32-402

Description
Taxpayers are allowed a credit of 35% of the eligible costs for investments of $5,000 or more in commercial wind-generation systems. Eligible costs include only expenditures that qualify under section 38 of the Internal Revenue Code of 1954, as amended, and that are for generating equipment, safety devices, or transmission lines.

If the investment receives federal wind-generation credits, the state credit must be reduced by the amount of federal credit such that the effective credit does not exceed 60% of the eligible costs.

The credit may be carried forward for a period of seven years.

Purpose
To encourage the development of a wind energy industry in Montana.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

74 ELDERLY HOMEOWNER/RENTER CREDIT

MCA 15-30-171, et. seq.

Description
Residents age 62 or older who have resided in Montana for at least 9 months during the claim period are eligible for a refundable property tax credit not to exceed $400.

Purpose
Provides financial assistance to elderly homeowners on fixed incomes.

Fiscal Impact
FY 1992 . . . . . $ 3,500,000
FY 1993 . . . . . $ 3,600,000

75 ELDERLY CARE CREDIT

MCA 15-30-128

Description
This credit is available to individuals with qualified health expenses incurred from taking care of an elderly family member (of at least 70 years of age and income of less than $15,000).

Purpose
To provide financial assistance to those individuals incurring a financial burden due to caring for elderly family members, and to mitigate the impact on general fund Medicaid expenditures for nursing home care.

Fiscal Impact
FY 1992 . . . . . $ 50,000
FY 1993 . . . . . $ 50,000

76 OTHER CREDITS

MCA 90-8-202(5)

Description
Taxpayers are allowed an income tax credit for investing in certified Montana capital companies. The credit is limited to 50% of the investment up to $150,000 per taxpayer per capital company.

Purpose
To provide an incentive to encourage the formation of venture and equity capital in Montana.

Fiscal Impact
FY 1992 . . . . . $ 1,923,000
FY 1993 . . . . . $ 2,023,000

CORPORATION LICENSE TAX

Montana ties its corporation license tax directly to the federal definition of corporation taxable income. Corporations are then required to add back to federal taxable income any Montana corporation tax deducted for federal purposes, additions to reserves for bad debts, and other miscellaneous additions. They are allowed to deduct bad debts actually charged off, Montana net operating losses, and other miscellaneous deductions.

The corporation license tax base may be summarized as follows:

	Federal Taxable Income
plus:	Montana Corporation License Tax
	Additions to Reserves for Bad Debts
	Other Additions
less:	Bad Debts Charged Off
	Other Deductions
	Montana Net Operating Losses
Equals:	Montana Taxable Income

Tax liability is computed as 6.75% of Montana taxable income, but in any case not less than $50. (For corporations making a "water's edge" election the tax rate is 7%.) A 5% surtax was in effect for tax year 1990.

Because Montana ties so closely to federal taxable income, almost all of the tax expenditures associated with the corporation license tax are "passive" in nature. However, it should be noted that federal sources list several corporation tax expenditures that are not applicable to Montana.

For example, several federal tax expenditure items are directed at insurance companies (underwriters). Because insurance companies pay a premiums tax in Montana, they are exempt from corporation license tax, and hence, have no corporation license tax expenditure items. Institutions that are exempt from one form of tax in lieu of paying another form of tax are not considered as constituting tax expenditures.

In addition to the above mentioned federal tax expenditure items, Montana provides for several state-specific tax credits. These are discussed in the following section.

CORPORATION LICENSE TAX EXPENDITURES - DETAIL

EXCLUSIONS FROM FEDERAL INCOME

The following exclusions from federal income (items 1-6) are all passive tax expenditures associated with the federal tax code and are incorporated into Montana tax code to simplify administration.

1 EXCLUSION OF INCOME OF FOREIGN SALES CORPORATIONS

MCA 15-31-113

Description
Depending on the pricing rule in effect, a portion of the foreign trade income of a Foreign Sales Corporation is exempt from tax. If the income is based on "arms-length" pricing, 32% of foreign trade income is exempt. If income is determined under special administrative pricing rules, the exempt portion is 16/23 of the foreign trade income from the transaction.

Purpose
Provide financial assistance through the form of export subsidies.

Fiscal Impact

FY 1992	$ 167,000
FY 1993	$ 187,000

2 EXCLUSION OF INVESTMENT INCOME ON LIFE INSURANCE AND ANNUITY CONTRACTS

MCA 15-31-113

Description
Oftentimes corporations will purchase life insurance policies on certain employees. As with individuals, the "dividends" earned on the accumulated premiums is excluded from income.

Purpose
Provides an incentive to invest in instruments deemed to be of social value.

Fiscal Impact

FY 1992	$ 179,000
FY 1993	$ 190,000

3 PERMANENT EXEMPTION FROM IMPUTED INTEREST RULES

MCA 15-31-113

Description
In certain cases where installment sales or loan agreements fail to provide for interest at a minimum rate specified by law or the IRS, interest is imputed and included in gross income. Exemptions from the imputed interest rules include loans of less than $10,000, and a special method for computing income from a gift loan of less than $100,000.

Purpose
Provide ease in administration.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

4 DEFERRAL OF GAIN ON INSTALLMENT SALES

MCA 15-31-113

Description
A method of accounting known as installment reporting may be used for sales of personal property by a dealer who regularly sells or otherwise disposes of personal property on the installment plan. In stead of reporting income in the year of the sale, the taxpayer is allowed to report income in the year when cash from the sale is received.

Purpose
Provides financial assistance to dealers providing installment sales by averting potential cash flow problems.

Fiscal Impact

FY 1992	$ 65,000
FY 1993	$ 65,000

5 LIKE-KIND EXCHANGES

MCA 15-31-113

Description
No gain or loss is recognized in cases where property held for productive use in business is exchanged solely for property of a "like kind". The provision

does not apply to inventory, stocks, bonds, notes, and various other script.

Purpose
Provides for mobility and ease of administration in the transfer of certain assets.

Fiscal Impact
FY 1992 . . . . . $ 134,000
FY 1993 . . . . . $ 134,000

6 GAIN FROM SALE OR EXCHANGE TO EFFECTUATE FCC POLICIES

MCA 15-31-113

Description
Under certain conditions, a corporation which is ordered to sell or exchange its holding to comply with a change in policy or the creation of a new policy by the Federal Communications Commission can choose to treat the situation as an involuntary conversion of property. Under such circumstances any gain identified will not be recognized.

Purpose
To promote compliance with new or changing policies regulated by the Federal Communications Commission.

Fiscal Impact
FY 1992 . . . . . $ 54,000
FY 1993 . . . . . $ 54,000

DEDUCTIONS FROM FEDERAL INCOME

The following tax expenditures (items 7-23) are passive in nature and are incorporated into state tax laws to simplify administration.

7 INVENTORY PROPERTY SALES SOURCE RULE EXCEPTION

MCA 15-31-113

Description
The general rule for the sourcing of income from the sale of personal property as either U.S. source income or foreign source income is based upon the residency of the seller. However, an exception is provided for the sale of inventory property. Under this exception, income is sourced to the location where the inventory has been sold.

Purpose
Provide financial assistance to firms with large inventories stored in foreign locations.

Fiscal Impact
FY 1992 . . . . . $ 601,000
FY 1993 . . . . . $ 657,000

8 EXPENSING OF RESEARCH AND DEVELOPMENT EXPENDITURES

MCA 15-31-113

Description
Normally, the costs associated with developing or creating a product or other asset must be capitalized over the life of the asset. But in the case of research and development expenditures taxpayers may chose to fully deduct all expenses in the year in which they occur.

Purpose
Provides a financial incentive for research and development.

Fiscal Impact
FY 1992 . . . . . $ 288,000
FY 1993 . . . . . $ 313,000

9 EXPENSING OF EXPLORATION AND DEVELOPMENT COSTS

MCA 15-31-113

Description
"Intangible" drilling and development costs of oil, gas, and geothermal wells, and expenditures for the development of minerals other than oil or gas may be fully deducted in the year in which they occur.

Purpose
Provides a financial incentive for the exploration and development of natural resources.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ 47,000

10 EXCESS OF PERCENTAGE OVER COST DEPLETION

MCA 15-31-113

Description
All exhaustible natural deposits and timber qualify for deduction of a reasonable allowance for depletion based on the taxpayer's cost or other basis of the resources. This is referred to as "cost depletion", and is very similar to depreciation in its application.

But in the case of mines and certain oil and gas properties, the depletion deductions may be computed as a specified percentage of gross income (which has no relationship to basis) if greater than cost depletion.

The amount of percentage depletion that is in excess of cost depletion is considered a tax expenditure.

Purpose
Provides a financial incentive to small operators for the extraction of oil, gas, and mine deposits.

Fiscal Impact

FY 1992	$ 994,000
FY 1993	$ 1,136,000

11 EXPENSING OF TERTIARY INJECTIONS

MCA 15-31-113

Description
Oil and gas operations using tertiary methods of recovery are allowed to deduct fully the cost of tertiary injections in the year in which the expense is incurred.

Purpose
Reduces the cost of tertiary recovery, providing an incentive to continue oil production through more costly methods, rather than abandon the well.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

12 EXPENSING MULTIPERIOD TIMBER GROWING COSTS

MCA 15-31-113

Description
Costs incurred for management and protection (labor and materials for fire, disease and insect control, and expenses for the removal of unwanted trees and brush) of timber stands within the first one to two years after planting are currently deductible.

Purpose
Provides financial assistance in the development of new stands of timber.

Fiscal Impact
FY 1992 . . . . . $ 1,462,000
FY 1993 . . . . . $ 1,799,000

13 SPECIAL RULES FOR MINING RECLAMATION RESERVES

MCA 15-31-113

Description
Normally, accounting rules would not allow a deduction for expenses associated with reclamation activities until the activities were actually performed.

However, taxpayers may make a special election to deduct current allocations to a reserve fund dedicated to reclamation activities. The amount allocable in each year is limited to the amount needed to raise the reserve to a level sufficient to reclaim, at current prices, the amount of land thus far disturbed.

Purpose
Provides an incentive to insure funding for reclamation activities will be available at time reclamation is to be performed.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

14 EXPENSING CERTAIN AGRICULTURAL MULTIPERIOD PRODUCTION COSTS

MCA 15-31-113

Description
Farmers have the option of deducting or capitalizing the deductible expenses of current operations during the pre-productive period of farms. Farmers may also deduct the pre-productive period expenses associated with the production of any plant or animal, regardless of the length of their pre-productive period.

This last option is not available to any corporation, partnership, syndicate, or tax shelter required to use the accrual method of accounting.

Purpose
Provides economic relief to the farming community.

Fiscal Impact
FY 1992 . . . . . $ 338,000
FY 1993 . . . . . $ Minimal

15 CASH ACCOUNTING

MCA 15-31-113

Description
Taxpayers may elect the cash method of accounting, rather than the accrual method. Generally, the accrual method is preferred as it takes into account the income of receivables. The difference in net income between the cash and accrual methods is considered a tax expenditure.

Purpose
Provides financial assistance to businesses electing the cash system of accounting.

A) Agriculture

Fiscal Impact
FY 1992 . . . . . $ 450,000
FY 1993 . . . . . $ 450,000

B) Other than Agriculture

Fiscal Impact

FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

16 DEPRECIATION IN EXCESS OF ALTERNATIVE DEPRECIATION SYSTEMS

MCA 15-31-113

Description

Deductions for depreciation are allowed to reflect the wear, tear, and obsolescence of goods purchased for use in business that have a useful life of more than one year.

Economic depreciation is based on the expected economic life of an asset. Economic depreciation varies from asset to asset, and may be significantly different for personal property relative to real property.

Depreciation deductions may be increased in the early years of an assets life in two ways: (1) alternative depreciation methods, such as double declining balance, may be applied, or (2) the economic life of the asset may be arbitrarily shortened, as was done with most assets under the Accelerated Cost Recovery System (ACRS).

Prior to 1981 depreciation was calculated using the Class Life Asset Depreciation Range System (ADR). Assets were assigned useful lives approximating their economic life, and taxpayers were allowed to use sum-of-the-year's-digits or the double declining balance methods, as well as the straight-line method of accounting.

The Economic Recovery Tax Act of 1981 (ERTA) introduced the Accelerated Cost Recovery System (ACRS), which allowed the use of accelerated accounting methods applied over substantially shortened asset lives. ACRS is applicable to property placed in service after 1980 and before 1987.

The Tax Reform Act of 1986 (TRA86) revamped depreciation laws by introducing the Modified Accelerated Cost Recovery System (MACRS). MACRS extended the depreciable life of residential and nonresidential real estate, and required use of the straight-line method for these assets. With some exceptions, however, class lives for other property was kept the same as under ACRS, with some acceleration in accounting methods for specific classes of property allowed.

Depreciation that is in excess of "normal" depreciation schedules is considered a tax expenditure.

Purpose
Accelerated methods of depreciation provide an incentive for investment in capital formation by reducing the effective price of capital assets.

Fiscal Impact

A) Rental Housing
FY 1992 . . . . . $ 134,000
FY 1993 . . . . . $ 134,000

B) Real Estate
FY 1992 . . . . . $ 224,000
FY 1993 . . . . . $ 224,000

C) Equipment
FY 1992 . . . . . $ 5,752,000
FY 1993 . . . . . $ 6,558,000

17 EXPENSING DEPRECIABLE BUSINESS PROPERTY (UP TO $10,000)

MCA 15-31-113

Description
Certain taxpayers may elect to expense up to $10,000 per year of the value of recovery property used in the active conduct of a trade or business. The $10,000 expense election is reduced dollar-for-dollar for eligible personal property placed in service in excess of $200,000.

Purpose
Provides an additional incentive for investment in equipment, especially for small businesses.

Fiscal Impact
FY 1992 . . . . . $ 79,000
FY 1993 . . . . . $ 45,000

18 AMORTIZATION OF BUSINESS START-UP COSTS

MCA 15-31-113

Description
Taxpayers may elect to amortize qualifying business start-up costs over a five year period. Start-up costs include expenditures connected with investigating the creation or acquisition of an active trade or business, creating an active trade or business, etc.

In the absence of these provisions, these costs would be included in the original basis of the business and not recovered until the business was sold.

Purpose
Provide an incentive for the formation of new businesses, and mitigate the tax impact on new businesses.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

19 EXPENSING MAGAZINE CIRCULATION EXPENDITURES

MCA 15-31-113

Description
Generally, expenses incurred in creating or developing an asset must be capitalized. However, publishers of periodicals can deduct currently their expenditures to establish, maintain, and increase circulation.

Purpose
Provides financial assistance to publishers of periodicals.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

20 COMPLETED CONTRACT RULES

MCA 15-31-113

Description
Long-term construction contracts entered into before March 1, 1986 were allowed to use the completed contract method of accounting. Under this

method the contractor would not report the gross income from the contract, and would deduct any expenses related to it, in the year the contract was completed.

The Tax Reform Act of 1986 repealed the completed contract method of accounting, except for certain small contracts for short time periods. However, the new law still provided for applying completed contract rules to 60% of the value of the contract, while requiring 40% of the value to be accounted for using the percentage of completion method.

Purpose
This provision provides financial assistance to contractors subject to long-term contracts, and helps to mitigate cash flow problems stemming from long-term contracts.

Fiscal Impact

FY 1992	$ 73,000
FY 1993	$ 329,000

21 DEDUCTIBILITY OF CHARITABLE CONTRIBUTIONS

MCA 15-31-113

Description
Contributions to organizations that are religious, charitable, educational, scientific, or literary in purpose are deductible.

Purpose
This deduction acts to reduce the cost of making charitable contributions, thereby increasing the amount of these types of contributions.

Fiscal Impact

FY 1992	$ 537,000
FY 1993	$ 560,000

22 EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

MCA 15-31-113

Description
ESOPs may borrow funds in order to purchase qualifying employer securities for the benefit of plan participants. Employers are allowed a deduction (up to 25% of the compensation of all participating employees) for contributions that are used to pay back the principal on these loans.

A corporation is allowed a deduction for dividends paid to an ESOP. The deduction is allowed provided that it is paid in cash, and is distributed to the ESOPs participants or beneficiaries.

Finally, under certain conditions, corporations are allowed to deduct from income any dividends paid to ESOPs. This provision does not apply to non-binding sales made by "C" Corporations after March 28, 1985.

Purpose
Provides an incentive for the development and expansion of ESOPs.

Fiscal Impact

FY 1992	$ 369,000
FY 1993	$ 414,000

23 EXPENSING COSTS OF REMOVING ARCHITECTURAL BARRIERS

MCA 15-31-113

Description
A taxpayer can elect to treat up to $35,000 of qualified architectural and transportation barrier removal expenses as a current deduction, rather than as a charge to a capital account.

To qualify, the expenditure must be for the purpose of making any facility or public transportation vehicle owned or leased by the taxpayer for use in his trade or business more accessible to and usable by handicapped and elderly individuals.

Purpose
Provide financial assistance to make businesses more accessible to the elderly and handicapped.

Fiscal Impact

FY 1992	$ Minimal
FY 1993	$ Minimal

MONTANA CREDITS

The following corporate tax expenditures (items 24-29) are state-specific credits designed to encourage specific taxpayer behavior and provide financial relief to certain taxpayers.

24 INVESTMENT TAX CREDIT

MCA 15-31-123

Description
Montana allows an investment credit for small businesses equal to 5% of the federal investment credit up to a maximum of $500 in any given taxable year. The Tax Reform Act of 1986 repealed the federal investment credit. Consequently, the tax expenditures associated with this credit in future years will reflect only the carryforward amounts allowed under current law.

Purpose
Investment credit provisions are intended to stimulate investment and economic development.

Fiscal Impact

FY 1992	$ 220,000
FY 1993	$ 200,000

25 MONTANA CAPITAL COMPANY CREDIT

MCA 90-8-202(5)

Description
Corporations are allowed an income tax credit for investing in certified Montana capital companies. The credit is limited to 50% of the investment up to $150,000 per taxpayer per capital company.

Purpose
Provide an incentive to encourage the formation of venture and equity capital in Montana.

Fiscal Impact

FY 1992	$ 165,000
FY 1993	$ 141,000

26 NEW/EXPANDED INDUSTRY CREDIT

MCA 15-31-124

Description
New and expanding industries are allowed a tax credit equal to 1% of the total new wages paid in Montana for the first three years of operation or expansion.

Expanding operations must increase total full-time jobs by 30% or more. "New" industry means a corporation engaging in manufacturing for the first time in Montana, and making a product not currently manufactured in Montana.

Purpose
Provide an incentive for economic development and job creation.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

27 INTEREST DIFFERENTIAL CREDIT

MCA 15-32-107

Description
Electric and natural gas public utilities may install or pay for the installation of energy conservation materials, or non-fossil forms of energy generation systems, in dwellings. Occupants of such dwellings then reimburse the utility, to include interest, through periodic installments added to their regular utility bills. Utilities are limited to charging 7% interest on these installations.

Also, financial institutions are allowed to make loans for energy-related installations at a rate not less than 2% below the discount rate on 90-day commercial paper.

Utilities and financial institutions are allowed to calculate the difference between interest earned on these loans and installations, and what would have been earned at the prevailing average interest rate for home improvement loans, and apply the difference as a tax credit on corporation license tax returns.

Purpose
Provide an incentive for the installation of low-cost conservation materials, promote conservation of fossil fuels.

Fiscal Impact
FY 1992 . . . . . $ 200,000
FY 1993 . . . . . $ 184,000

28 CONTRACTOR'S GROSS RECEIPTS

MCA 15-50-207

Description
Public contractor's are required to pay an additional license fee equal to 1% of the gross receipts from public contracts during the income year for which the license is issued. This additional fee is allowed as a credit against the contractor's corporation license tax liability.

Purpose
These provisions of tax law facilitate the taxation of primary and secondary contractor's while protecting the primary contractor from being taxed twice on the same earnings.

Fiscal Impact
FY 1992 . . . . . $ 500,000
FY 1993 . . . . . $ 479,000

29 EMPLOYER PROVIDED DEPENDENT CARE ASSISTANCE CREDIT

MCA 15-31-131

Description
Employers who provide dependent care assistance to their employees are allowed a credit against the corporation license tax otherwise due. The credit is 15% of the actual amount paid or incurred in providing dependent care assistance during the tax year, with a $1,250 maximum per employee.

Purpose
To encourage employers to provide dependent care assistance for their employees.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

NATURAL RESOURCES TAXES

Montana statutes provide for metal and micaceous mines license taxes, and coal, oil, and natural gas severance taxes. Tax expenditures identified in this report pertain to coal, oil, and natural gas severance taxes.

Coal

The severance tax on coal is expressed as a percentage of the value (contract sales price) of each ton of coal mined. Tax rates vary depending on the Btu content of the coal, and on whether the coal is extracted via a surface or underground operation. The vast majority of coal mined in Montana is from surface operations subject to the maximum tax rate.

In fiscal 1988 the coal severance tax rate was 30%. As a result of legislation passed during the Fiftieth Legislature (1987), the maximum severance tax rate on coal is now scheduled to be 25% in fiscal 1989 and 1990, 20% in fiscal 1991, and 15% thereafter.

Oil and Natural Gas

The state severance taxes on oil and gas production are calculated as a percentage of the gross value of production. Gross value in any month is defined to be total production, less any production used in the operation of the well, times the average wellhead price during the month. The "regular production" tax rates for oil and gas are 5% and 2.65%, respectively.

HB776, enacted by the 1987 legislature, exempted from severance tax the first 5 barrels per day for oil stripper wells and the first 30 MCF per day for natural gas stripper wells. The bill also reduced the rates for oil and gas stripper production beyond the 5 barrels per day and 30 MCF per day limits to 3% and 1.59% respectively. Also exempted from state severance tax were the first 24 months of "new production" of any type.

The 24 month "new production" exemptions for oil and gas production, the exemptions for stripper oil production below 5 barrels per day, and the reduced rate on stripper oil production were eliminated by the recent rise in the price of West Texas Intermendiate Crude. The exemption of the first 30 MCF per day of stripper gas production and the reduced rate of 1.59% on stripper production over 30 MCF per day remain in law.

Metal Mines

Persons engaged in or carrying on the business of working or operating any mine from which gold, silver, copper, lead, or any other metal or metals or precious or semiprecious gems or stones are produced are subject to the metals mines license tax.

The tax is calculated as a percentage of gross value, where gross value means market value. The tax rate depends on the product type and the total gross value of product.

Concentrate shipped to a smelter, mill, or reduction work is taxed at the following rates:

Gross Value of Product	Tax Rate
first $250,000	0.00 %
> $250,000	1.81 %

Gold, silver, or any platinum group metal that is dore, bullion, or matte and that is shipped to a refinery is taxed at the following rates:

Gross Value of Product	Tax Rate
first $250,000	0.00 %
> $250,000	1.60 %

NATURAL RESOURCES TAX EXPENDITURES - DETAIL

The following tax expenditures (items 1-5) are designed to encourage specific taxpayer behavior and provide financial assistance to certain natural resource taxpayers.

1 COAL TAX EXEMPTION (FIRST 50,000 TONS)

MCA 15-35-103(5)

Description
Coal producers who produce less than 50,000 tons of coal per year are exempt from severance taxes. If production exceeds 50,000 tons, then only the first 20,000 tons (5,000 tons per quarter) are exempt from severance tax.

Purpose
Provide economic relief to small producers.

Fiscal Impact

FY 1992	$ 205,000
FY 1993	$ 205,000

2 TAX EXEMPTION ON FIRST 30 MCF OF GAS STRIPPER PRODUCTION

MCA 15-36-121(3)

Description
The first 30 MCF of gas produced from a well that produced 60 MCF or less of natural gas a day during the prior calendar year is exempt from severance tax.

Purpose
Provide economic incentive to maintain production from stripper wells.

Fiscal Impact

FY 1992	$ 663,000
FY 1993	$ 766,000

3 REDUCED RATE ON STRIPPER PRODUCTION IN EXCESS OF 30 MCF

MCA 15-36-121(3)

Description
The normal severance tax rate on the production of natural gas is 2.65%. However, production in excess of 30 MCF from a well that produced 60 MCF or less of natural gas a day during the prior calendar year is taxed at a reduced rate

of 1.59%.

Purpose
Provide economic incentive to maintain production from stripper wells.

Fiscal Impact

FY 1992	$ 67,000
FY 1993	$ 78,000

4 REDUCED RATE ON INCREMENTAL PRODUCTION FROM TERTIARY RECOVERY PROCESSES

MCA 15-36-121(3)

Description
The normal severance tax rate on the production of oil is 5%. However, incremental production stemming from tertiary recovery processes is taxed at a reduced rate of 2.5%.

Purpose
Provides an incentive to continue producing from known reserves through more costly recovery processes, rather than abandon the well.

Fiscal Impact

FY 1992	$ Minimal
FY 1990	$ Minimal

5 REDUCED RATES ON METAL MINES GROSS VALUE OF PRODUCTION LESS THAN $250,000

MCA 15-36-121(3)

Description
The gross value of production from metal mines is subject to differential rates of tax, depending on the value and type of production. All production from a mine in excess of $250,000 gross value is subject to a rate of either 1.6% or 1.81%, whereas production from mines less than $250,000 is exempt from taxation. The exemption for production below $250,000 in value represents a tax expenditure.

Purpose

Provides economic assistance to small producers of metal, and provides an incentive to produce from small claims.

Fiscal Impact

FY 1992	$ 67,000
FY 1993	$ 67,000

PROPERTY TAX

In Montana, the property tax is the primary source of funding for local governments. For any given piece of property the tax base is the product of the market value of the property and its applicable taxable value percentage.

Tax liability is the product of taxable value and the appropriate mill levy in effect for the property. Mills are levied by counties, cities and towns, and school districts. Certain property may be subject to additional mills for special districts (water, sewer, lighting, etc.).

Currently, property may fall into one of 17 classes of property, with taxable value percentages ranging from 2% to 100%. (A description of these property classes and their taxable values can be found in the Department of Revenue Biennial Report.)

Property tax expenditures arise as a consequence of certain property being exempt from tax, or receiving preferential rate treatment. Generally, preferential rate treatment refers to situations where properties within the same class are subject to different taxable value rates.

MCA 15-6-201, et. seq., details the property exempt from tax. Many types of property are exempt from tax including government property, household goods and furniture, church property, property of certain fraternal organizations and societies, business inventories, certain agricultural commodities, down-hole equipment in oil and gas wells, etc.

Most of these exemptions constitute tax expenditures. However, placing an accurate value on the expenditures associated with these properties is not possible unless the property is appraised. Unfortunately, property not subject to tax is rarely, if ever, appraised. Therefore, tax expenditures associated with most exempt property are not reported here.

PROPERTY TAX EXPENDITURES - DETAIL

The following property tax expenditures are specific to Montana and encourage specific taxpayer behavior as well as provide financial assistance to certain taxpayers.

1 REDUCED RATES FOR LOW-INCOME RESIDENTIAL PROPERTY

MCA 15-6-134, 15-6-142, and 15-6-144

Description
Montana property tax statutes provide for a partial abatement, based on total income, that reduces the tax rate applicable to residential real property. Tax rates are reduced according to a ten-bracket schedule for single households with less than $10,000 income, and married couple households with less than $12,000 income.

The reduced rate applies to the first $80,000 of the market value of residential land and improvements, to include trailers and mobile homes used as residences (Class 12), and farmsteads (Class 14).

The income levels used in the rate reduction table are adjusted annually for inflation.

Purpose
Provide financial relief to low-income households.

Fiscal Impact

FY 1992	$ 1,400,000
FY 1993	$ 1,400,000

2 REDUCED RATE FOR "NEW INDUSTRIAL" PROPERTY

MCA 15-6-135

Description
New industrial property, including land, buildings, machinery, and fixtures, is eligible for a reduced taxable valuation rate of 3% for the first three years of operations. (Normal taxable valuation rates for industrial property include 3.86% for land and buildings and 9% for manufacturing equipment.)

New industry refers to new industrial endeavors (as opposed to expansions, reorganizations, or mergers), and generally includes only manufacturing, mining, or milling operations.

Purpose
Provide an economic incentive for the development of new industry in Montana.

Fiscal Impact
FY 1992 . . . . . $ 100,000
FY 1993 . . . . . $ Minimal

3 REDUCED RATE FOR "NEW" OR "EXPANDING" INDUSTRIAL PROPERTY (LOCAL-OPTION INCENTIVE)

MCA 15-24-1401, and 1402

Description
After approval by separate resolution for each project, local governments may reduce taxable valuations of "new" or "expanding" industries 50% in each of the first five years following the issuance of a construction permit. After that time, the taxable valuation rises in equal increments each succeeding year until full valuation is reached in the 10th year. This incentive does not apply to mills levied by the state.

"Expansion" means that the industry has added at least $250,000 worth of qualifying improvements; "new" means that the industry is new to the jurisdiction and has added at least $500,000 worth of qualifying improvements to the jurisdiction.

There are no limitations on the type of industry that may qualify for this incentive.

Purpose
Provide an economic incentive for the development of new industry in Montana.

Fiscal Impact
FY 1992 . . . . . $ 340,000
FY 1993 . . . . . $ 340,000

4 REDUCED RATE FOR REMODELING OR REBUILDING OF STRUCTURES (LOCAL-OPTION INCENTIVE)

MCA 15-24-1501

Description
Remodeling, reconstruction, or expansion of existing buildings or structures which increases their taxable value by at least 2.5% may receive a reduced tax rate for five years following construction, through local government approval by separate resolution for each project.

Tax rates are set at zero during construction, at 20% of normal during the first year following construction, and increase by 20% in each succeeding year until full valuation is reached in the fifth year following construction.
All existing buildings and structures may apply for this benefit.

Purpose
This abatement provides an incentive to add long-term taxable valuation to local jurisdictions, while allowing the property owner to phase-in the increased tax liability.

Fiscal Impact
FY 1992 . . . . . $ Minimal
FY 1993 . . . . . $ Minimal

5 "NEW" OIL PRODUCTION NET PROCEEDS TAX EXEMPTION

MCA 15-23-612

Description
Oil from a well that qualifies as "new" production is exempt from net proceeds taxes for the first 12 months following the start of production. New production refers to the production of oil from any well that has not produced oil during the 5 years immediately preceding the first month of qualified new production.

Purpose
Provide an economic incentive for the exploration, development, and production of oil.

Fiscal Impact
FY 1992 . . . . . $ 1,535,000
FY 1993 . . . . . $ 2,419,000

6 "NEW" GAS PRODUCTION NET PROCEEDS TAX EXEMPTION

MCA 15-23-612

Description
Gas from a well that qualifies as "new" production is exempt from net proceeds taxes for the first 12 months following the month in which the gas is placed into a natural gas distribution system. New gas refers to the production of gas from any well that has not produced gas during the 5 years immediately preceding the first month of qualified new production.

Purpose
Provide an economic incentive for the exploration, development, and production of natural gas.

Fiscal Impact

FY 1992	$ 819,000
FY 1993	$ 973,000

7 EXEMPTION FOR BUSINESS INVENTORIES

MCA 15-6-202(5)

Description
Inventories held in the regular course of business are exempt from property taxation. (SB283, 1981 Session.)

Purpose
Provide financial relief to existing business, and provide financial incentive for the development of new businesses.

Fiscal Impact
The original 1981 fiscal note, based on total taxable valuation for business inventories of $33 million and a statewide average mill levy of 226 mills, placed the annual revenue loss at $7,460,000. Increases in mill levies and in market values since that time would produce larger revenue losses today. However, due to severe data limitations, no precise estimate of the revenue loss due to exempting business inventories is currently available.

8 CERTAIN AGRICULTURAL PRODUCTS TAX EXEMPTION

MCA 15-6-207

Description
Producer-held grain in storage, swine which have not attained the age of 6 months, other livestock which have not attained the age of 24 months, poultry, and bees are exempt from property taxes.

Purpose
Provide economic relief to Montana's agricultural community.

Fiscal Impact
Since this property is totally exempt from taxation and therefore not assessed, no new data exists for updating an estimate of this expenditure. Factors that would impact this expenditure include changes in mill levies and fluctuations in commodity values. The previous Tax Expenditure Report lists this expenditure to be $2,200,000 for FY 90 and again for FY 91.

MONTANA TAX EXPENDITURES
SUMMARY LIST

INDIVIDUAL INCOME TAX

Exclusions from Federal Income (pages 10-25)

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
1.	Benefits and Allowances to Armed Forces Personnel	1,333	1,353	2,686
2.	Military Disability Pensions	64	64	128
3.	Income Earned Abroad by U.S. Citizens	947	967	1,914
4.	Special Rules for Mining Reclamation Reserves	Minimal	Minimal	Minimal
5.	Ag. Cost Sharing Programs	Minimal	Minimal	Minimal
6.	Cancellation of Indebtedness Income of Farmers	Minimal	Minimal	Minimal
7.	Income on Life Insurance and Annuity Contracts	4,824	5,275	10,099
8.	Capital Gains on Home Sales for Persons 55 and Over	2,409	2,538	4,947
9.	Capital Gains at Death	4,437	4,888	9,325
10.	Permanent Exemption from Imputed Interest Rules	129	129	258
11.	Like-kind Exchanges	129	129	258
12.	Gain from Sale to Effectuate FCC Policies	Minimal	Minimal	Minimal

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
13.	Scholarship/Fellowship Income	367	387	754
14.	Education Savings Bonds	44	109	153
15.	Employee Meals and Lodging (Other than Military)	516	516	1,032
16.	Cafeteria Plan Benefits	1,859	2,221	4,080
17.	Rental Allowances of Minister's Homes	129	173	302
18.	Miscellaneous Fringe Benefits	2,776	3,015	5,791
19.	Employee Awards	64	64	128
20.	Income Earned by Benefit Organizations	322	322	644
21.	Employer-Provided Child Care	193	238	431
22.	Certain Foster Care Payments	Minimal	Minimal	Minimal
23.	Contributions by Employers and Self-Employed for Medical Ins. Premiums and Medical Care	23,560	26,455	50,015
24.	Untaxed Medicare Benefits	6,386	7,417	13,803
25.	Worker's Compensation Benefits	1,591	1,656	3,247
26.	Special Benefits to Disabled Coal Miners	64	64	128
27.	Public Assistance Benefits	238	258	496
28.	Net Exclusion of Pension Contributions and Earnings	34,580	35,978	70,558

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
29.	Employer-Provided Group Term Life Insurance Premiums	1,269	1,333	2,602
30.	Employer-Provided Accident and Disability Insurance Premiums	64	64	128
31.	Employer-Provided Death Benefits	Minimal	Minimal	Minimal
32.	Untaxed Social Security Benefits	14,923	15,393	30,316
33.	Veteran's Benefits and Services	1,031	1,076	2,107
34.	Interest on Montana State and Local Government Debt	N/A	N/A	N/A
	Deductions from Federal Income (pages 25-34)			
35.	Expensing of Exploration and Development Costs	322	367	68
36.	Excess of Percentage Over Cost Depletion	193	193	386
37.	Expensing of Tertiary Injections	Minimal	Minimal	Minimal
38.	Expensing Multiperiod Timber Growing Costs	Minimal	Minimal	Minimal
39.	Expensing Certain Agricultural Multiperiod Prod. Costs	129	84	213
40.	Cash Accounting for Agriculture	193	149	342
41.	Deferral of Capital Gains on Home Sales	7,293	7,679	14,972

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
42.	Depreciation in Excess of Alternative Depreciation Systems	3,163	3,401	6,564
43.	Expensing Depreciable Business Property (up to $10,000)	64	64	128
44.	Amortization of Business Start-Up Costs	129	129	258
45.	Expensing Magazine Circulation Expenditures	Minimal	Minimal	Minimal
46.	Deferral of Gain on Installment Sales	Minimal	Minimal	Minimal
47.	Cash Accounting Other than Agriculture	Minimal	Minimal	Minimal
48.	RIC Expenses from Misc. Deduction Floor	302	367	669
49.	Parental Personal Exemption for Students Age 19 or Over	193	193	386
50.	Expensing Costs of Removing Architectural Barriers	Minimal	Minimal	Minimal
51.	Individual Retirement Plans (includes IRAs, Keoghs etc.)	6,088	6,366	12,454
	Montana Reductions/Exclusions (pages 34-37)			
52.	Capital Gains Exclusion	1,552	1,381	2,933
53.	Interest Exclusion for Elderly	1,697	1,772	3,469
54.	Exempt Retirement Income	20,961	24,136	45,097

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
55.	Other Reductions	12,835	13,552	26,387
56.	Additional Exemptions for the Blind and Elderly	5,033	5,427	10,460
	Itemized Deductions (pages 38-42)			
57.	Medical and Dental Expense	7,447	8,178	15,625
58.	Federal Income Tax Paid	97,011	102,424	199,435
59.	Real and Personal Property Taxes	8,102	8,248	16,350
60.	Other Deductible Taxes	1,466	1,502	2,968
61.	Home Mortgage Interest	26,301	26,959	53,260
62.	Deductible Interest	2,574	2,505	5,079
63.	Contributions	10,670	10,977	21,647
64.	Child/Dependent Care	84	70	154
65.	Casualty/Theft Loss	234	237	471
66.	Moving Expense	823	813	1,636
67.	Miscellaneous Deductions	5,236	5,287	10,523
	Montana Credits (pages 43-46)			
68.	Income Taxes Paid to Other States or Countries	4,358	4,720	9,078
69.	Contractor's Gross Receipts	114	124	238
70.	Investment Credit	577	477	1,054

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
71.	Installation of Non-fossil Energy Systems	55	55	110
72.	Investment in Energy Conservation Installments	100	100	200
73.	Wind-Powered Generation Equipment	Minimal	Minimal	Minimal
74.	Elderly Homeowner/Renter Credit	3,500	3,500	7,000
75.	Elderly Care Credit	50	50	100
76.	Other Credits	1,923	2,023	3,946

CORPORATION LICENSE TAX

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
	Exclusions from Federal Income (pages 48-50)			
1.	Exclusion of Income of Foreign Sales Corporations	167	187	354
2.	Exclusion of Income on Life Insurance and Annuity Savings	179	190	369
3.	Permanent Exemption from Imputed Interest Rules	Minimal	Minimal	Minimal
4.	Deferral of Gain on Non-dealer Installment Sales	65	65	130
5.	Like-Kind Exchanges	134	134	268
6.	Gain from Sale or Exchange to Effectuate FCC Policies	54	54	108
	Deductions from Federal Income (pages 50-59)			
7.	Inventory Property Sales Source	601	657	1,258
8.	Expensing of Research and Development Expenditures	288	313	601
9.	Expensing of Exploration and Development Costs	0	47	47
10.	Excess of Percentage over Cost Depletion	994	1,136	2,130
11.	Expensing of Tertiary Injections	Minimal	Minimal	Minimal
12.	Expensing Multiperiod Timber Growing Costs	1,462	1,799	3,261

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
13.	Special Rules for Mining Reclamation Reserves	Minimal	Minimal	Minimal
14.	Expensing Certain Agricultural Multiperiod Production Costs	338	0	338
15.	Cash Accounting	450	450	900
16.	Depreciation in Excess of Alternative Depreciation Systems	6,110	6,916	13,026
17.	Expensing Depreciable Business Property (up to $10,000)	79	45	124
18.	Amortization of Business Start-Up Costs	Minimal	Minimal	Minimal
19.	Expensing Magazine Circulation Expenditures	Minimal	Minimal	Minimal
20.	Completed Contract Rules	73	329	402
21.	Deductibility of Charitable Contributions	537	560	1,097
22.	Employee Stock Ownership Plans	369	414	783
23.	Expensing Costs of Removing Architectural Barriers	Minimal	Minimal	Minimal
	Montana Credits (pages 60-62)			
24.	Investment Tax Credit	220	200	420
25.	Montana Capital Company Credit	165	141	306

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
26.	New/Expanded Industry Credit	Minimal	Minimal	Minimal
27.	Interest Differential Credit	200	184	384
28.	Contractor's Gross Receipts	500	479	979
29.	Employer Provided Dependent Care Assistance Credit	Minimal	Minimal	Minimal

NATURAL RESOURCE TAXES (pages 65-67)

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
1.	Coal Tax Exemption (first 50,000 Tons Produced)	205	205	410
2.	Tax Exemption on First 30 MCF of Gas Stripper Production	663	766	1,429
3.	Reduced Tax Rate on Gas Stripper Production in Excess of 30 MCF	67	78	145
4.	Reduced Rate on Incremental Tertiary Production	Minimal	Minimal	Minimal
5.	Reduced Rates on Metal Mines Gross Value less than $250,000	67	67	134

PROPERTY TAX (pages 69-73)

	Tax Expenditure Item	Fiscal Impact (000's) FY 1992	FY 1993	Biennium
1.	Reduced Rates for Low-Income Residential Property	1,400	1,400	2,800
2.	Reduced Rate for "New Industry" (Class 5) Property	100	Minimal	100
3.	Reduced Rate for "New" or "Expanding" Industrial Property (Local-Option Incentive)	340	340	680
4.	Reduced Rate for Remodeling of Buildings and Structures (Local-Option Incentive)	Minimal	Minimal	Minimal
5.	"New" Oil Production Net Proceeds Tax Exemption	1,535	2,419	3,954
6.	"New" Gas Production Net Proceeds Tax Exemption	819	973	1,792
7.	Business Inventory Exemption	(see detail)		
8.	Certain Agricultural Products Tax Exemption	(see detail)		

APPENDIX A

INDIVIDUAL INCOME TAX EXPENDITURE ITEMS - BY INCOME BRACKET

House Bill 387 (1987), the legislation authorizing the Department of Revenue to produce a tax expenditure report, specifically required that tax expenditures must be related to the income of taxpayers, whenever such information is available.

This information is available for specific individual income tax expenditure items that are captured on department computer files. Specifically, tax expenditures, by income bracket, are available for Montana-specific reductions to income, and itemized deductions.

Totals for the tax expenditures in Appendix A are for full-year residents only, whereas the expenditures in the main body of this report include out-of-state and part-year residents as well.

The following tables show the distributions of tax expenditures across income brackets that represent decile groupings. That is, each decile group includes one-tenth of all the returns filed. The first group includes returns with the very lowest incomes, while the last group includes returns having the highest incomes.

The decile groupings are based on actual 1989 incomes, but the tax expenditures are those projected to calendar year 1992. The decile groupings and their associated total income brackets for 1989 are as follows:

Decile Group	Income Bracket
1	$ 0 - $ 2,800
2	$ 2,800 - $ 5,700
3	$ 5,700 - $ 8,700
4	$ 8,700 - $ 12,400
5	$ 12,400 - $ 16,500
6	$ 16,500 - $ 21,900
7	$ 21,900 - $ 28,800
8	$ 28,800 - $ 37,300
9	$ 37,300 - $ 49,500
10	$ 49,500 +

A. REDUCTIONS TO INCOME.

Table 1. Capital Gains Exclusion and Interest Exclusion for the Elderly by Decile Group.

Decile	Capital Gains Excl.			Elderly Interest		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	156	6,915	0.52	156	1,554	0.09
2	156	2,649	0.20	1,716	27,203	1.59
3	0	0	0.00	3,432	64,548	3.78
4	662	33,991	2.54	5,014	144,098	8.43
5	726	25,714	1.92	4,250	179,984	10.54
6	954	35,268	2.64	4,128	185,381	10.85
7	940	60,490	4.53	2,850	164,964	9.66
8	844	72,874	5.45	2,876	203,812	11.93
9	1,129	156,350	11.70	3,339	277,872	16.27
10	2,092	941,917	70.49	4,397	458,950	26.86
Total	7,659	$1,336,168	100.00	32,158	$1,708,366	100.00

Table 2. Exempt Retirement Income and Other Reductions, by Decile Group.

Decile	Exempt Retirement			Other Reductions		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	0	0	0.00	156	3,825	0.03
2	1,872	114,640	0.52	1,404	34,952	0.27
3	5,304	738,269	3.35	2,184	144,933	1.14
4	4,950	1,128,884	5.13	3,610	515,214	4.05
5	4,484	1,173,267	5.33	3,220	607,556	4.78
6	5,856	3,170,512	14.40	5,280	1,490,045	11.72
7	3,850	2,055,583	9.34	4,144	656,929	5.16
8	3,866	2,637,421	11.98	5,566	1,295,723	10.19
9	5,144	5,640,848	25.62	5,266	1,691,536	13.30
10	4,574	5,355,217	24.33	4,790	6,278,152	49.36
Total	39,900	$22,014,641	100.00	24,443	$12,718,864	100.00

B. ITEMIZED DEDUCTIONS.

Table 1. Medical and Federal Income Tax Paid, by Decile Group.

Decile	Medical			Federal Income Tax		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	0	173	0.00	468	81,166	0.09
2	1,248	38,368	0.54	0	0	0.00
3	2,184	89,924	1.28	624	29,556	0.03
4	5,850	326,923	4.64	4,108	81,521	0.09
5	6,310	483,854	6.87	7,358	401,314	0.46
6	7,046	732,816	10.40	12,408	1,027,065	1.17
7	8,078	997,146	14.16	18,428	2,789,275	3.17
8	9,524	1,306,642	18.55	24,238	6,350,755	7.21
9	9,070	1,418,453	20.14	27,714	11,575,687	13.14
10	7,599	1,649,593	23.42	28,983	65,758,727	74.65
Total	56,909	$7,043,892	100.00	124,329	$88,095,066	100.00

Table 2. Property Tax and Other Deductible Tax, by Decile Group.

Decile	Property Tax			Other Deductible Taxes		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	0	0	0.00	0	96	0.01
2	624	4,575	0.06	156	389	0.03
3	780	7,862	0.10	780	2,241	0.16
4	4,568	110,966	1.41	2,320	14,887	1.06
5	6,274	196,781	2.50	3,424	26,528	1.89
6	10,116	378,867	4.81	6,692	56,400	4.01
7	14,296	634,424	8.05	11,410	124,927	8.88
8	20,228	1,213,951	15.41	16,270	239,666	17.03
9	23,647	1,841,163	23.37	19,243	405,450	28.82
10	25,843	3,491,224	44.31	16,738	536,361	38.12
Total	106,376	$7,879,813	100.00	77,033	$1,406,945	100.00

Table 3. Home Mortgage and Other Interest, by Decile Group.

Decile	Home Mortgage Interest			Other Interest		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	156	1,057	0.00	0	0	0.00
2	468	14,970	0.06	0	0	0.00
3	780	39,709	0.16	0	0	0.00
4	2,586	158,334	0.63	114	1,048	0.05
5	4,032	408,871	1.62	152	0	0.00
6	7,342	1,004,542	3.97	418	46,975	2.02
7	11,292	2,049,650	8.10	350	30,228	1.30
8	16,036	4,035,049	15.94	814	83,172	3.58
9	19,580	6,626,308	26.18	988	194,604	8.37
10	20,276	10,976,169	43.36	3,672	1,969,168	84.69
Total	82,548	$25,314,659	100.00	6,508	$2,325,195	100.00

Table 4. Contributions and Dependent Care Expense, by Decile Group.

Decile	Contributions			Dependent Care		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	0	0	0.00	0	0	0.00
2	624	7,179	0.07	0	0	0.00
3	936	8,602	0.08	156	0	0.00
4	4,222	96,151	0.94	346	3,101	6.41
5	6,324	210,984	2.05	532	17,044	35.23
6	9,086	314,337	3.06	494	23,744	49.08
7	13,890	710,155	6.92	114	0	0.00
8	19,164	1,249,912	12.17	120	1,673	3.46
9	23,325	1,729,201	16.84	184	2,813	5.81
10	26,378	5,940,648	57.86	50	0	0.00
Total	103,949	$10,267,169	100.00	1,996	$48,375	100.00

Table 5. Casualty/Theft Loss and Moving Expense, by Decile Group.

Decile	Casualty/Theft Loss			Moving Expense		
Group	# Returns	Expenditure	%	# Returns	Expenditure	%
1	0	0	0.00	0	0	0.00
2	0	0	0.00	156	4,688	1.13
3	0	0	0.00	0	0	0.00
4	0	0	0.00	0	0	0.00
5	144	13,622	6.81	76	0	0.00
6	0	0	0.00	152	1,961	0.47
7	20	0	0.00	408	37,021	8.92
8	60	19,464	9.73	360	37,110	8.94
9	115	74,313	37.13	410	87,838	21.17
10	73	92,737	46.34	773	246,347	59.37
Total	382	$200,136	100.00	2,335	$414,965	100.00

Table 6. Miscellaneous Deductions by Decile Group.

Decile	Miscellaneous Deductions		
Group	# Returns	Expenditure	%
1	0	295	0.01
2	0	0	0.00
3	312	14,647	0.30
4	1,042	11,929	0.24
5	1,520	134,490	2.72
6	3,078	248,969	5.04
7	4,970	535,051	10.83
8	6,766	879,742	17.80
9	7,712	1,075,479	21.76
10	7,870	2,041,476	41.31
Total	33,270	$4,942,078	100.00

C. TOTAL REDUCTIONS TO INCOME AND ITEMIZED DEDUCTIONS.

Table 1. Total Reductions to Income and Itemized Deductions by Decile Group.

Decile Group	Total Reductions Expenditure	%	Total Itemized Deductions Expenditure	%	Reductions and Itemized Deductions Expenditure	%
1	12,618	0.03	82,787	0.06	95,405	0.05
2	182,401	0.47	70,169	0.05	252,570	0.14
3	960,011	2.47	192,541	0.13	1,152,552	0.62
4	1,865,773	4.80	804,860	0.54	2,670,633	1.43
5	2,037,919	5.25	1,893,488	1.28	3,931,407	2.10
6	5,007,262	12.89	3,835,676	2.59	8,842,938	4.73
7	2,993,541	7.70	7,907,877	5.35	10,901,418	5.84
8	4,319,446	11.12	15,417,136	10.42	19,736,582	10.57
9	7,909,708	20.36	25,031,309	16.92	32,941,017	17.64
10	13,565,359	34.91	92,702,450	62.66	106,267,809	56.89
Total	$38,854,359	100.00	$127,937,846	100.00	$186,792,331	100.00

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